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| **Woodlands Securities Corporation**  (the "Company")  **WRITTEN SUPERVISORY PROCEDURES (“WSP”)**  *Copy date: December 21, 2022*  **Morris Monroe, Owner, President, CCO** |
| **THE PURPOSE OF THIS MEMORANDUM IS TO MAKE CLEAR FOR ALL ASSOCIATED PERSONS THE SUPERVISORY PROCEDURES WHICH WILL GOVERN THE STANDARD OF CONDUCT OF ALL ASSOCIATED PERSONS OF THE COMPANY. FAILURE TO FOLLOW THESE SUPERVISORY PROCEDURES AND STANDARDS OF CONDUCT WILL BE CAUSE FOR DISMISSAL OF THE OFFENDING ASSOCIATED PERSON OR PERSONS.**  **THIS MEMORANDUM ALSO SETS FORTH THE DUTIES AND RESPONSIBILITIES OF THE SUPERVISORY PERSONNEL AS WELL AS THE STANDARDS OF PROCEDURE RELATING TO BOOKKEEPING AND OTHER STANDARDS REQUIRED BY LAWS**. |

**Supervisory Procedures Memorandum**

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# 1. INTRODUCTION

## 1.1 FINRA Rule 2010. Standards of Commercial Honor and Principles of Trade

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

"Compliance" is not a static event; it is a process which evolves in tandem with regulations that govern our industry and the circumstances of each particular interaction. This manual includes Company's supervisory policies and procedures to provide guidance to designated supervisors in their oversight of the Company's business. It is a working document and reference for supervisors and will be updated when necessary.

It is recognized that supervision must be a flexible tool for use by those charged with managing the Company's various activities. While it is generally expected these procedures will be followed, supervisors are encouraged to adapt these procedures to the needs of the Company, their particular department, and the employees and customers of the Company. These procedures are meant to be a basic framework upon which supervisors oversee the Company's activities.

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

"Associated Person" as used in this manual may include Registered Representatives (“RRs”), employees, officers (and others as identified by the Company, who may be independent contractors for tax and compensation purposes). Supervision may be delegated to others, where appropriate; however, designated supervisors are responsible for ultimate supervision of assigned areas.

This manual is the property of Woodlands Securities Corporation and may not be provided to anyone outside the Company without the permission of Compliance or the Company's counsel.

## 1.2 Code of Conduct

The Company recognizes its fiduciary responsibility to its clients. It is the duty and responsibility of the Company, shareholder(s), and Associated Persons to comply with Federal securities laws and place the interest of the Company’s clients first. Associated Persons shall conduct themselves in such a manner to avoid any actual or potential conflict of interest or to abuse an individual’s position of trust and responsibility. Company and Associated Persons should avoid the appearance of a conflict of interest and should fully disclose all material facts concerning any conflict that arises with a client.

Company is committed to the fair treatment of customers and strives to avoid, manage, or mitigate conflicts of interest. Company shall conduct ongoing reviews of potential conflicts and record them when identified in the Conflicts Inventory as part of Company’s internal review records. Subsequently, Compliance shall conduct an annual review of said inventory as part of its annual internal exam and determine if any new conflicts exist and/or any new policies need to be added or amended.

In addition, potential conflicts and their supervision are also addressed in the following sections of the WSP:

* Section 4 - Supervision of Associated Persons: gifts and gratuities, outside business activities, outside securities accounts,
* Section 6 – Regulation S-P: privacy protections, identity theft, etc.
* Section 8 – Trading: insider trading, etc.

It is imperative that all Associated Persons understand the value Company places on ethical behavior and strive to live up to those ideals and must adhere to all federal and state securities laws and these standards of business conduct.

### 1.2.1 Conflicts of Interest

Company has an obligation to mitigate potential conflicts of interest and put the customer's interest before its own. Company will perform a review of conflicts of interest at least on an annual basis and maintain such review as part of Company records for three years. Potential conflicts are addressed in the following sections which also address supervision of these potential conflicts.

1. Company's procedures address the following issues:
   * Confidentiality of Company’s business, its employees, customers, suppliers or consumers
   * Gifts and entertainment
   * Privacy of customer information and requests for information from affiliates
   * Internal accounting controls
   * Reporting ethics violations and disciplinary action
   * Full and fair disclosure regarding documents filed on behalf of the Company
   * Employee compliance with Company policies and rule requirements, obligations to report
   * Supervision vested in supervisors
   * Review of conflicts
2. Trading *(see the chapter Trading Policies and Procedures)*
3. Policies regarding employee outside business activities, outside accounts *(see the chapter Supervision of Associated Persons)*
4. Customer privacy policies and procedures and Identity Theft *(see the chapter Regulation S-P, S-AM, and S-ID)*
5. Private Placements Due Diligence and Conflicts *(see Chapter Private Placements, Underwritings)*

When assessing actual or potential conflicts of interest, Company shall consider the following:

* define conflicts of interest in a way that is relevant to a firm’s business and which helps staff identify conflict situations;
* Articulate employees’ roles and responsibilities with respect to identifying and managing conflicts;
* Establish mechanisms to identify conflicts as they evolve (through team meetings, annual compliance sessions, telephonically, etc.);
* Establish escalation procedures for conflicts of interest within and across business lines;
* Avoid severe conflicts, even if that avoidance means foregoing an otherwise attractive business opportunity;
* Disclose conflicts of interest to clients, taking into consideration the different needs of retail and institutional clients;
* Train staff to identify and manage conflicts in accordance with firm policies and procedures; and
* Report on significant conflicts issues to include identification and management of conflicts which are to be included in Company’s annual review, to the Chief Executive Officer (CEO).

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# 2. SUPERVISORY SYSTEM. PROCEDURES AND CONTROLS

## 2.1 Introduction

Pursuant to FINRA Rule 3110, Company has established a supervisory system, procedures and controls reasonably designed to comply with regulators' rules.

***Supervisory system:*** The internal system to oversee business includes the designation of supervisors and allocation of responsibilities; assignment of Associated Persons to appropriate supervisors; identification of areas of business and rules that govern those businesses; and development of procedures.

***Supervisory procedures:*** Procedures in this manual (and in other policies or manuals, if referenced in specific chapters) include:

* Compliance procedures for Associated Persons and others that explain rule requirements and prohibitions as well as internal policies when conducting sales and other activities; and,
* Supervisory procedures that explain how supervisors are to conduct their ongoing responsibilities. Most supervisory procedures are explained in "matrixes" that appear throughout this manual and include the following:

## 2.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Morris Monroe, Compliance |
| **Statutes** | * FINRA Rule 3110, 3120-Supervisory System, 3130 – Annual Certification |
| **Frequency** | * Annual (or more frequently for certain high-risk areas) |
| **Actions** | * How supervision is to be conducted (*i.e.,* review a report, read correspondence, interview RR or customer, *etc.*). * Preparation of reports, any reviews, controls, tests, gaps, findings, any correction action, revision in policies |
| **Records** | * What record is made that supervision was conducted? *Generally supervisors are expected to initial and date reports or other records, note any action taken, and retain that information in their files.* * Reviews and verification reports, policies and procedures |

***Supervisory Controls:*** Controls refer to testing and evaluation of systems and procedures to measure and maintain their effectiveness. Internal controls and testing typically involve sampling of functions to test effectiveness and identify shortcomings, gaps, or other inefficiencies in supervisory systems and procedures. Internal controls also involve the ongoing reassessment of these functions to determine whether they are serving their intended purpose.

## 2.3 FINRA Rule 3120 – Supervisory Control System

Company conducts reviews of its supervisory procedures and controls at least annually to confirm procedures are current and include all areas of business and shall designate to FINRA such individuals responsible. Procedures and controls are also tested to determine they achieve the necessary levels of compliance and adherence with applicable securities laws and regulations. Methods depend on the size and mix of Company's business.

Reviews conducted internally may use different approaches:

* Review of a specific period of time
* Review based on a sampling of the activity
* Assigning risk levels to different areas of business. Areas of higher risk may be subject to more frequent and/or more extensive reviews which may include look-backs, larger samples and/or longer time periods for review, certifications by supervisors, or other reviews determined by the reviewer(s).
* Other reviews appropriate to the area of business

Employees (including supervisors) have an obligation to report issues that are potential problems involving wrongdoing. While each incident is unique, following is a general protocol for escalating such reporting when necessary.

* The potential problem should initially be reported to the individual's direct supervisor.
* If the problem involves the direct supervisor, or it appears there is inadequate response from the direct supervisor.
* If the issue involves the supervisor's supervisor, or if it appears there is inadequate response, contact Compliance or internal counsel.
* Compliance or internal counsel may:
  + contact outside counsel for further guidance
  + notify senior management
  + notify regulators

### 2.3.1 Internal Examinations

Company conducts at least annually an internal examination to test and verify its supervisory system and controls and amend any procedures accordingly.

Testing and verification generally include:

* Identifying risks and areas to be reviewed at least annually
* Developing reviews and a schedule for conducting the reviews
* Assigning responsibility for conducting reviews
* Preparing reports of reviews
* Providing reports to management and other appropriate personnel for potential corrective action when necessary
* Following up regarding deficiencies in subsequent reviews

Records of testing are maintained by the department responsible for conducting testing in a written document and includes:

* Areas to be reviewed;
* Dates of reviews;
* Reports of findings including a record of distribution of the report and responses from the supervisor of the area examined if applicable;
* Follow-up or corrective action taken if any;
* Testing documents supporting the review;
* Any recent FINRA audit findings or deficiencies were corrected; and
* Any new laws or regulations that might pose the need for new or revised policies and procedures;

Testing and verification is the responsibility of:

* Compliance - compliance systems and procedures.
* Internal Audit - financial and operations systems and procedures.

Findings from reviews and testing are included in the report for the CEO's annual certification (by March 31 of the following year). Compliance is responsible for:

* Amending policies and procedures to address gaps;
* Reporting deficiencies (found in testing) to supervisors of appropriate business areas;
* Follow up to determine deficiencies have been addressed; and
* Assembling findings for inclusion with the CEO report and annual certification.

## 2.4 Written Compliance and Supervisory Procedures (WSP)

Compliance is responsible for maintaining and updating Company’s compliance and supervisory procedures which are included in the WSP. A review of the Company's written supervisory practices and procedures as well as the business activities and entire supervisory system will be conducted no less than annually, but sooner if mandated by new regulatory rules and guidelines or updates and shall be reviewed by Morris Monroe or his designee. Any necessary changes will be recorded by the copy date of the WSP. In addition, the Company will conduct annual internal examinations as well as branch office examinations, per the applicable schedule, as part of its review.

The WSP will be distributed at least on an annual basis at the annual compliance meeting or sooner if deemed necessary. This manual is updated and policies distributed as follows:

* New and amended rules and releases from regulators are reviewed on an ongoing basis and changes considered for the WSP and incorporated where necessary. Changes are considered at least annually.
* Changes are incorporated in the WSP and marked in red or any text that is outdated or no longer applies is deleted (or marked as a change in the Strunk Compliance Program).
* Prior versions of the WSP are archived for books and records purposes.
* When policy and procedure changes affect personnel, Compliance will distribute new or revised policies by one or more of the following methods:
  + In written form, where practical
  + By email
  + Made available on Company’s website
* Compliance provides access to the WSP to new employees and obtains acknowledgements that are maintained in employee or other compliance files.
* If Policies are made available to employees in electronic format, a “read receipt” will be maintained if emailed or available via Company website.

## 2.5 FINRA Rule 3130. Annual Certification of Compliance and Supervisory Processes

**Pursuant to Rule 3130, the Company will adhere to the following:**

**(a) Designation of Chief Compliance Officer (CCO). Morris Monroe is designated as the Company’s CCO as identified to** FINRA on Schedule A of Form BD.

**(b) Annual Report and Certification Requirement. Company will** have its chief executive officer(s) (or equivalent officer(s) meet with Compliance at least annually to review compliance matters for the annual certification. Compliance will prepare a report that includes a review of Company's supervisory system and procedures, testing and any material issues, and key compliance issues. After receipt and review of the report, the Chief Executive Officer (or equivalent) will certify annually (by March 31 following the year of review), as set forth in paragraph (c), that the Company 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 FINRA rules, MSRB rules and federal securities laws and regulations, and that the chief executive officer(s) has conducted one or more meetings with the chief compliance officer(s) in the preceding 12 months to discuss such processes.

**(c) Certification.** The certification shall state the following:

The undersigned is the chief executive officer(s) of Company (the “Member”). As required by [FINRA Rule 3130](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=6286)(b), the undersigned make(s) the following certification:

1. The Company has in place processes to:

(A) Establish, maintain and review policies and procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations;

(B) Modify such policies and procedures as business, regulatory and legislative changes and events dictate; and

(C) Test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with FINRA rules, MSRB rules and federal securities laws and regulations.

2. The undersigned chief executive officer(s) (or equivalent officer(s) has/have conducted one or more meetings with the chief compliance officer(s) in the preceding 12 months, the subject of which satisfy the obligations set forth in FINRA Rule 3130.

3. The Company's processes, with respect to paragraph 1 above, are evidenced in a report reviewed by the chief executive officer(s) (or equivalent officer(s)), chief compliance officer(s), and such other officers as the Company may deem necessary to make this certification. The final report has been submitted to the Company's board of directors and audit committee or will be submitted to the Company's board of directors and audit committee (or equivalent bodies) at the earlier of their next scheduled meetings or within 45 days of the date of execution of this certification.

4. The undersigned chief executive officer(s) (or equivalent officer(s)) has/have consulted with the chief compliance officer(s) and other officers as applicable (referenced in paragraph 3 above) and such other employees, outside consultants, lawyers and accountants, to the extent deemed appropriate, in order to attest to the statements made in this certification.

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# 3. SUPERVISORY PERSONNEL

## 3.1 Introduction

Company will determine that any applicable individual is qualified for a supervisory position. In addition, the Chief Compliance Officer (CCO) will be designated on Schedule A of Form BD, is a principal, will have compliance responsibilities defined and documented, meets the requirements of Rule 3130 regarding the defined area of primary compliance responsibility, and has the responsibilities and expertise enabling them to fulfill their obligations.

## 3.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Hiring Supervisor - confirm qualifications * Compliance - determine registration requirements * Principals: Morris Monroe, Laura Hendricks |
| **Statutes** | * FINRA Rules 1014(a)(10)(D), 3110, 3120 – Supervisors * FINRA Rule 3130.02 – CCO Designations * Rule 3012 |
| **Frequency** | * As required |
| **Actions** | * Hiring supervisor:   + Evaluate candidate's qualifications including experience and knowledge   + Arrange for training, if necessary * Compliance:   + Confirm individual has required registration qualifications and, if not, arrange for the individual to complete the required exams * Notify the hiring supervisor of added qualifications required and remind him/her the individual may not act as a supervisor until necessary registrations are obtained (unless a regulator allows for a grace period to act as a supervisor before registration is completed)   + Provide supervisory policies/procedures to the candidate if not already available to him/her   + Form BD – Schedule A: file any CCO designations   + Identify each office as to type to determine regulatory requirements, maintain list of offices and types   + Maintain assignment of Supervisors   + Identify and review of Producing Supervisors transactions, customers   + Determination of Limited Size Exemption   + File any required regulatory forms   + Conduct inspections of offices |
| **Records** | * Background and registration information in candidate's file * Record of exams as qualification * Record of offices and type, and inspections * Record of providing supervisory policies/procedures * Form BD, Schedule A – CCO designation * Regulatory filings |

## 3.3 Designated Supervisors and Responsibilities

Within the office the following person(s) is (are) hereby designated in writing as a supervisor(s) with their respective areas of responsibility designated. These supervisory people have been selected on the basis of qualifications, i.e. specifically, licensing regulations; experience; background; and character. It is the Company's position that the proper selection and installation of supervisory personnel will be a key factor in conducting the Company's business on a high moral and ethical plane. Full authority to enforce an associated person's compliance with the standards of conduct, both moral and ethical, will be given to the designated supervisor (hereinafter referred to as "designated person"). Periodic inspections and interviews will be conducted to ensure that each designated person is complying with the standards of this area.

For all regulatory purposes, the Company's main office as listed on its Form BD is an office of supervisory jurisdiction under collective supervision of Morris Monroe as set out below herein.

**Supervisor: Area of Responsibility: Qualifications:**

|  |  |  |
| --- | --- | --- |
| Morris Monroe *(eff 06/88)* | Strategic Planning | Series 24, 28, 53 |
| Pres/CEO/CCO/PFO | Business Development |  |
| Principal Op Officer, | Retail Securities Activities |  |
| AML CO *(eff 2/22/02)* | Institutional Sales Activities |  |
|  | Underwriting Activities |  |
| *Producing Supv* | Advertising Activities |  |
| *Reviewed by LMH* | Markup/Markdown Policies |  |
|  | Discretionary Account Activities |  |
|  | Communication with the Public Activities |  |
|  | Supervision of Associated Persons |  |
|  | Acceptance of Customer Accounts |  |
|  | Review and Endorsement of Customer Orders | |
|  | Receipt and Delivery of Funds  Chief Compliance Officer |  |
|  | Variable Insurance Products |  |
|  | Record Maintenance and Retention |  |
|  | Continuing Education Program |  |
|  | Multi-State Registration |  |
|  | Fixed Income Activities |  |
|  | Mutual Fund Activities |  |
|  | Private Placement and Direct Participation Program Activities |  |
|  | Anti-Money Laundering | |
|  | FINRA Executive Representative |  |
|  | Electronic Form Filing Supervision |  |
|  |  |  |
|  |  |  |
| **FINOP/ CFO/ Municipal Principal** *Eff*: *7/1/91* | Financial and Operational Activities, Filings Municipal Securities Activities, |  |
| *04/14/92* | Communications, Record Maintenance, Training |  |
|  |  |  |

Under Morris Monroe: Home Office

Compliance Department/Designees – Laura Hendricks (VP, Principal, Compliance Officer), Gloria Sedita, Connie Smith.

Back Office and Designees – Daniel Baker, Gloria Sedita, Laura Hendricks

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Laura Hendricks Series 7, 24

Principal, Compliance Officer

*Eff 02/25/02*

*Reviewed by* Communication with the Public Activities

*MLM*  Acceptance and Review of Customer Accounts

Review and Endorsement of Customer Orders

Record Maintenance and Retention

Continuing Education Activities

Registrations

Various Product Activities

Anti-Money Laundering

Regulatory Electronic Form Filing

Operations/ Back Office Activities

Compliance Department Activities

Business Monitoring and Advising

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## 3.4 Office Designations

This chapter describes the types of offices defined by regulators and requirements for inspections and supervision of offices. **Compliance must be notified:**

* Before a new branch office or other business office is opened (including all types of offices defined in this chapter)
* When an office address changes
* Prior to a change in the types of business conducted in an office
* When an RR changes offices
* Prior to an RR commencing work from a second location, such as a primary residence
* Prior to establishing an office-sharing arrangement with an outside person or entity

### 3.4.1 Branch Office

A branch office is any location where one or more associated persons (*e.g.,* employees, independent contractors) regularly conduct the business of effecting any transactions in or inducing or attempting to induce the purchase or sale of any security or any location held out as such. Branch offices are required to be registered, and if the "main office" meets the definition of "branch office," or “OSJ,” it is required to be registered.

Any office that is responsible for supervising Associated Persons at one or more non-branch locations is considered to be a branch office.

### 3.4.2 Non-Branch Locations

There are seven exceptions from the branch office registration requirement. To qualify for an exception, all conditions must be met for the office location. All non-branch offices and their associated persons are assigned to a designated branch office for supervision.

1. ***Non-sales locations:*** Locations established solely for customer service and/or back office functions, not to be held out to the public as a branch office, and no sales activities are conducted from the location.
2. ***Primary residences:*** Any location that is the associated person's primary residence. Only one associated person, or multiple associated persons who reside at the location and are members of the same immediate family, may conduct business from the location. Requirements for primary residence offices include:

* Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;
* The location is not held out to the public as an office and the associated person does not meet with customers at the location;
* Neither customer funds nor securities are handled at that location;
* The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;
* The associated person's correspondence and communications with the public are subject to Company's supervision in accordance with this Rule;
* Electronic communications (*e.g.,* email) are made through Company's electronic system;
* All orders are entered through the designated branch office or an electronic system established by the member that is reviewable at the branch office;
* Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by Company; and
* A list of the residence locations is maintained by Compliance.

1. ***Locations other than primary residences:*** Other locations used for securities-related activities less than 30 business days in any calendar year that meet the requirements of a primary residence office above. This would generally include vacation or second homes and other non-primary residences. An RR operating from this type of location will be required to maintain a record of the dates when business is conducted from such a location and submit this information monthly to Compliance. When the "30-business day" exemption is exhausted, the RR is required to cease conducting business from that location or immediately submitting a request to Compliance to register the location as a branch office.
2. ***Offices of convenience:*** This is a location where an associated person occasionally and exclusively by appointment meets with customers, provided the location is not held out to the public as a branch office. An associated person may not establish business hours at the location or hold out the location in any way (except for signage required at bank locations). Final approval and execution of transactions must be done through the designated supervisory branch office.
3. ***Location used primarily to engage in non-securities transactions:*** Locations where associated persons are primarily engaged in non-securities activities (*e.g.,* insurance sales) and where the associated person effects no more than 25 securities transactions in a calendar year. Retail communications identifying the non-securities location must include the location of the supervising branch office. Compliance is responsible for monitoring the 25-transaction limit.
4. ***Floor of a registered national securities exchange:*** Any location on the floor of a registered national securities exchange where Company conducts a direct access business with public customers is exempt from the definition of "branch office."
5. ***Temporary location:*** Any temporary location established in response to the implementation of a business continuity plan is exempt from branch office registration.

Regardless of the above exceptions to the definition of "branch office," any location that is responsible for supervising activities of RRs at one or more non-branch locations is considered to be a branch office.

### 3.4.3 Offices of Supervisory Jurisdiction (OSJ)

An office that includes any of the following activities will be designated as an Office of Supervisory Jurisdiction (OSJ) with a resident principal responsible for supervision:

* Order execution and/or market making
* Structuring of public offerings or private placements
* Maintaining custody of customers' funds and/or securities
* Final acceptance (approval) of new accounts
* Review and approval of customer orders
* Final approval of retail communications
* Supervision of RRs at one or more other branch offices

In addition, the following factors will be considered on determining whether an office is an OSJ:

* Whether registered persons at the location engage in retail sales or other activities involving regular contact with public customers;
* Whether a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, such location;
* Whether the location is geographically distant from another OSJ of Company;
* Whether the member's registered persons are geographically dispersed; and
* Whether the securities activities at such location are diverse or complex.

Excluded from the definition of OSJ is an office that solely provides final approval of research reports.

An OSJ principal will supervise only one OSJ; exceptions must be approved by Compliance.

For purposes of this memorandum, Company maintains the following OSJ offices:

**Address: Supervisor:**

Home Office - OSJ, Muni OSJ

10655 Six Pines Dr Ste 100 Morris Monroe, Laura Hendricks

The Woodlands, Texas 77380 Contact Person: Morris Monroe

Laura Hendricks

### 3.4.4 Branch Offices Assigned to OSJs

Each branch office that is not an OSJ will be assigned to the supervision of an OSJ. All business transacted by non-OSJ branch offices must be processed through the supervising OSJ. The designated supervisor is responsible for supervision of the branch office's activities and maintaining files for complaints, communications, new accounts, and transactions originating from the branch office.

A branch office may be a "supervisory branch office" that has responsibility to supervise one or more other offices or a "non-supervisory branch office" that has no supervision over other offices.

The following office(s) of the Company are hereby designated and registered as branch office(s) assigned to an OSJ:

**Address: OSJ/Supervisor:**

Office:

14425 Torrey Chase #350 Main Office/Morris Monroe

Houston TX 77014 Contact Person: Jim Harris

The Company, as it may become appropriate, shall designate one or more appropriately registered Principals in each OSJ (a Designated Principal), including the main office, and, where applicable, one or more appropriately registered representatives or Principals in each non-OSJ branch office, with authority to carry out the supervisory responsibilities assigned to that office by the Company.

A copy of the WSP, or the relevant portions thereof, including amendments, shall be kept and maintained at each OSJ and at each location where supervisory activities are conducted on behalf of the Company (an electronic format is acceptable). An updated WSP will be given (or electronic access), at a minimum, at each annual compliance meeting. The Company shall assign each registered person to an appropriately registered representative(s) and/or principal(s) who shall be responsible for supervising that person's activities. Reasonable efforts will be used to ensure that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities whether onsite or remotely.

## 3.5 Office Inspections

Pursuant to Rule 3010(c)(1), all OSJ offices of the Company shall be inspected no less than annually by a qualified principal of the Company with sufficient knowledge and experience to evaluate branch activities. Any non-supervisory offices shall be inspected, at a minimum, every three years. The non-supervisory office’s securities business volume and complexity and the number of Associated Persons assigned to that office will be criteria for inspecting the office more frequently than every 3 years. Non-supervisory offices have either a minimal number of Associated Persons and/or sales activity and/or the branch is non-retail are the criteria for a three-year inspection cycle. All offices will be inspected by Morris Monroe or Laura Hendricks or by any other Compliance Department designee. A record of any inspection will be maintained by the Company and for a period of three years.

If deemed necessary by Compliance or Morris Monroe, some office inspections may occur on an unannounced basis. These will be based on a number of risk-based factors to warrant such an inspection. Factors may include:

* Increased production volume in riskier products;
* Customer complaints, disciplinary actions and/or regulatory actions filed against office personnel;
* A branch that previously did not supervise other offices now supervises another office (requiring annual inspection).
* Prior year adverse findings; or
* Other factors determined by Compliance.

Company may conduct office inspections remotely for the calendar years 2020 and 2021 as part of COVID relief. Inspections for the calendar year 2020 must be completed by March 31, 2021 and for the calendar year 2021 on or before December 31, 2021.

### 3.5.1 Heightened Inspections

Pursuant to Rule 3010(c)(3), the Company shall provide heightened office inspections if determined a branch is at a higher risk for rule violations. Heightened inspection procedures may include such elements as unannounced office inspections, increased frequency of inspections, a broader scope of activities inspected, and/or having one or more principals review and approve the office inspections. A record of any heightened office inspections will be maintained by the Company and for a period of three years.

An effective risk assessment process will help drive the frequency, intensity and focus of branch office inspections; it should also serve as an important consideration in the decision to conduct the exam on an announced or unannounced basis. Therefore, branch offices should be continuously monitored with respect to changes in the overall business, products, people and practices.

An ongoing risk analysis will be a key element of the Company’s exam planning process and lead to more frequent examinations of offices posing higher levels of risk than dictated by the Company’s non-risk-based cycle, and lead firms to engage in more unannounced exams of such offices. Some areas of high risk to consider are: sales of structured products; sales of complex products, including some variable annuities; sales of non-Company initiated private or otherwise unregistered offerings of any type; or offices that associate with individuals with a disciplinary history or that previously worked at a firm with a disciplinary history. NASD IM-3010-1 also lists additional factors to consider in making this determination. If red flag(s) are discovered, a Branch Risk Analysis Evaluation Form will be completed to document the reason for heightened supervision.

### 3.5.2 Records to Review

Reviews of the Offices of Supervisory Jurisdiction and the Home Office of the Company shall include but not be limited to the following areas:

1. Recordkeeping

a. Money and Securities Handling.

b. Books and records.

c. Communication with the Public.

d. Trading and order operations.

2. Selling Activities.

a. Sales Practices.

b. Compliance with applicable state laws.

c. Safeguarding customer funds and transmittal of funds.

3. General Supervision.

a. Supervision of accounts of Associated Persons as well as producing managers.

* 1. Supervision of Operations.
  2. Anti-Money Laundering compliance – including address changes and verification.
  3. Changes in customer account information and validation

* 1. Risk Assessment and Conflicts of Interest

Review of non-registered branches is not applicable since all non-branch Associated Persons must conduct their securities business at the home office.

### 3.5.3 Supervisory Reviews & Limited Size Exemption (Rule 3012)

Producing Supervisors shall be identified in the above chart in Section 3.3. In addition, pursuant to FINRA rules, Laura Hendricks and her Compliance Department designees are responsible for the supervisory reviews. Such review will include daily blotters and activity reports and WinOps transaction information. However, there is no senior or otherwise independent person in the Company to meet the requirement to review the activities of the Company’s President and CEO, Morris Monroe, and therefore must claim the “limited size and resources” exemption where he is concerned.

The following items will be reviewed for all producing supervisors:

1. Transmittals of funds (wires or checks, etc.) — *all wires are monitored daily and initialed for review by BackOffice personnel)*. In addition, Compliance maintains a record is maintained of wires and is reviewed at least monthly.

• From customers and third-party accounts (*e.g.*, a transmittal that would result in a change of beneficial ownership);

• From customer accounts to outside entities (*e.g.*, banks, investment companies, etc.);

• From customer accounts to locations other than a customer’s primary residence (*e.g.*, post office box, “in care of” accounts, alternate address, etc.); and

• Between customers and registered representatives, including the hand delivery of checks *(all checks are reviewed and posted in the Checks Received and Forwarded Blotter)*.

2. Account activity – as reviewed in daily blotters, monthly blotters, and annual reviews.

3. Customer changes of address and the validation of such changes of address *(all address changes are marked in the CRM and/or WinOps database – Change of Address letter includes validation)*; and

4. Customer changes of investment objectives and the validation of such changes of investment objectives *(any changes of investment objectives are marked in WinOps in the Financial section if applicable and verified by forwarding a letter to customer unless the change was from a response to a 17a-3 letter)*.

### 3.5.4 Reports

A record will be maintained of every office inspection and producing supervisor as evidence of review.

## 3.6 Closing Offices

When an office is closed (other than just moving to another location), Compliance is responsible for the following:

* Secure branch files and transfer to Compliance for record preservation;
* Notify customers affected by the closing if applicable;
* Delete any program access (i.e. User IDs and passwords).

Since all offices are autonomous as related to leases, equipment, and any access cards and keys, the designated supervisor will be responsible for handling any securing or disposition of such items.

If an office is relocating, the supervisor must ensure the security of all property and records and oversee the transfer to the new location. Keys/access cards for the closed office will be collected from employees and new ones issued for the new location.

# 4. SUPERVISION OF ASSOCIATED PERSONS

## 4.1 Introduction

All registered Associated Persons shall be assigned to a qualified supervisor of the Company (Exhibit A). Reference to employees also includes independent contractors. The ratio of retail Associated Persons (excluding administrative registered personnel) to supervisory principals shall not exceed 10:1. Further, all Associated Persons shall be responsible for familiarizing themselves with the Company's Written Supervisory Procedures and annual completion of the Company's Regulatory Checklist. All Regulatory notices received by Company via e-mail will be forwarded to the applicable branch supervisors. Each supervisor is responsible for familiarizing themselves with the contents as well as disseminating the information to the Associated Persons under their control, if applicable.

### 4.1.1 Working Remotely

Company shall permit employees or Associated Persons to work remotely (i.e. teleworking) provided the following procedures are in place and followed:

* each supervisor will review his or her responsibilities and adjust them as necessary in light of the different type of interaction with the supervised person working remotely and the supervisor may need to take on expanded roles;
* employees will be permitted to only use a work-issued laptop or desktop that has been appropriately secured;
* security for communications, web-based applications and electronic connectivity systems will be enhanced to address new potential threats of employees working outside the network at the office;
* employees will be trained or will have been trained on working remotely;
* where necessary, new or modified procedures for placing client trades will be implemented; and
* where necessary, onboarding new employee procedures will be adjusted due to the greater challenges of performing background checks and other due diligence.

In addition, Company where necessary will modify its supervisory and compliance policies and procedures that are utilized under "normal operating conditions" to address the unique risks and conflicts of interest presented by remote operations. In doing so, Company will consider:

* whether additional resources and/or measures for securing servers and systems are needed;
* how to maintain and secure the integrity of vacated facilities is maintained;
* how to collect regulatory-required records generated by employees working remotely;
* whether there is a need for relocation infrastructure and support for personnel operating from remote sites is provided; and
* how to protect data located remotely.

## 4.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * CCO * Designated Supervisor |
| **Statutes** | * FINRA Rule 1240 – Continuing Education * FINRA Rule 2150 – Guarantees & Sharing in Accounts * FINRA Rule 3010(a)(6) and 3010(e)] – Background investigations * FINRA Rule 3220 – Gifts & Gratuities * FINRA Rules 3270 and 3280 (OBAs and PSTs) * FINRA Rule 6140(e) - Rumors * FINRA Rules 1000 –Registration; 2000-Business Conduct; 3000 series - Supervision * FINRA Rule 5270 – Front Running |
| **Frequency** | * Annual Firm Element CE * As required for Regulatory Element, * Annual Regulatory Checklist * Annual review of procedures |
| **Actions** | * Filings and amendments in CRD (Review notification from FINRA regarding public records information missing or contrary to filed U4, and if applicable, file an amended Form U-4 within 30 days) * Conduct compliance meetings and training * Conduct Firm Element CE and ensure compliance with Regulatory Element * Conduct branch office reviews * Immediately notify Compliance of terminating registered employees * Immediately notify Compliance of terminating non-registered employees where termination was caused by theft or fraud * Immediately notify Human Resources, if applicable, of terminating registered and non-registered employees * Secure computers and computer files * Retrieve office keys, company credit cards, *etc.* from terminated employee * Reassign accounts * Notify customers of newly assigned RR, if applicable * Compliance file Form U5 for terminating RRs * Compliance provides the terminated RR with a copy of the RR's Form U5 within 30 days of termination * Determine if any information is reportable * File any information with FINRA or other applicable regulatory body * Review transactions, including those that potentially involve insider trading or other rule/law violations (and conduct investigation if discovered) * Review retail communications * Review Associated Person Company Notice forms * Take corrective action which may include:   + - Disciplinary action against the RR (letter of reprimand; fine, suspension; termination)     - Notification to private securities investors that Company is not associated with the investment |
| **Records** | * The CRD electronic files or other required filings * Company personnel and/or RR files and records * Compliance meeting records * Continuing Education records * Retail communications * Transaction records * Company Notice forms * Internal reviews and investigations |

## 4.3 Certification of New Employees/Filings

Prior to employment, an investigation of all potential employees’ good character, business repute, qualifications, any statutory disqualifications, and experience will be checked by Morris Monroe, or his designee. New employees must be accurate and complete in the information provided to Company at time of hire. Failure to do so may result in termination.

Records and reviews within 30 days of hire will include:

* + - 1. Driver’s License or Passport to verify identity
      2. Letter to previous employer and/or telephone call to previous employer;
      3. Personal contact with previous employer;
      4. Review of Form U5 filings made by previous employer(s) within 60 days of the filing date of an application for registration or record that reasonable effort has been made to conduct the review; or
      5. Review of Pre-Hire Report obtained through the CRD and public records by FINRA for information regarding bankruptcy, civil litigation, and judgements or liens and make any applicable amendments for the Form U-4 within 30 days regarding any discrepancies;
      6. Review a job applicant's Commodity Futures Trading Commission (CFTC) Form 8-T if applicable (CFTC’s equivalent of a Form U-5 for termination);
      7. Review of public records for information regarding criminal and bankruptcy records, civil litigation, judgments and liens.

This investigation includes registered and non-registered personnel. After employment, review of fingerprint card reports will be conducted as well as part of the Company’s review of an employee’s background. New employees will be required to reconcile discrepancies or missing information which may affect the employee's eligibility for hire.

The Company, through Compliance, shall use its best efforts to obtain copies of each person’s Form U-5 filing as filed by that person's previous employer through the FINRA/CRD or the individual applicant. Notwithstanding the requirement to obtain copies of the most recent Form U-5 filing, the Company recognizes the fact that due to electronic filings of Form U-5s with FINRA/CRD and or closure of the previous employer, a Form U-5 may not be available on every individual.

All new Associated Persons to become registered with the Company with FINRA shall receive an application package from Compliance consisting of the following materials:

1. Form U4;
2. U-4 Disclosure Statement (regarding the predispute arbitration clause);
3. Two (2) fingerprint cards;
4. Written Supervisory Procedures Memorandum;
5. Sales Associate Agreement

Obtaining fingerprint cards for submission to the FBI will be conducted at local law enforcement agencies trained to verify identity and the authenticity of the cards being presented. The Company does not handle fingerprint card processing in-house. A copy of fingerprint cards will be maintained in the Company records. Amendments will be made to any Form U-4 or U-5 when reported by Associated Persons or when applicable for reportable events. Required reportable events include SEC Wells notices (notifications issued by regulators to inform individuals and companies of completed investigations where infractions have been discovered and recipients have the opportunity to explain their position and/or convince any unwarranted action). Compliance is responsible for providing any requested information.

All newly registered representatives of the Company shall be assigned to a senior registered representative who will be responsible for routine training. Further all newly registered representatives will be required to meet with Morris Monroe, designated Principal, or Compliance for a personal interview and compliance briefing prior to being allowed to solicit securities transactions on behalf of the Company.

The review of a supervisor’s qualifications shall be performed in accordance with the preceding procedures, by reviewing the above referenced records, and if applicable by evaluating the person’s performance while associated with the Company. Morris Monroe or Laura Hendricks shall evidence review and approval by signing the Form U4 (which may include the electronic signature for submission to FINRA). If the proposed supervisor is already an employee of the Company then Morris Monroe or Laura Hendricks shall sign the Form U4 or Form BD amendment, exam request, or memo to file, whichever is applicable (which may include an electronic signature).

It shall be the responsibility of Morris Monroe, or his designee, to ensure that the appropriate employee files are established and maintained for each new Associated Person and that all necessary documents are filed on behalf of that Associated Person with FINRA. Amendments and other documents available in the FINRA CRD system that are not required for paper files do not have to be maintained in the Company files.

If examinations are requested for the Associated Person, a note should be made in the individual's file or noted in WinOps (as pending EXAM, then as Licensed upon passing). The CRD also reflects outstanding exam requests and/or exam approval's expiration date with FINRA which may serve as a record of exam requests. Should an Associated Person fail a qualification examination, the Company must ensure compliance with FINRA's examination retake policy.

*Registration Requirement*

All individuals engaged in activities (including selling or trading products such as stocks, bonds, options, variable insurance, *etc.*) subject to registration requirements of SROs or other regulators must complete the necessary registration and licensing prior to engaging in such activities. Employees may not conduct FINRA licensed required business with public customers until required registrations or licenses are effective. Associated Persons, who assume duties that require registration with FINRA as a principal, must pass the appropriate principal's examination.

*State Registrations*

Associated Persons must be registered in the state from which they conduct business and may be required to be registered in other states where customers are domiciled. Most states require successful completion of the Series 63 Uniform State Agent Securities Law Examination or the Series 66 (combined State Agent Securities Law and Investment Advisor). Successful completion of the exam does not automatically confer registered status on the examinee. Application must be made to the CRD to obtain each state registration. The designated supervisor is responsible for identifying transactions in states where registration may be required.

*Parking of Registration*

The Company will submit a Form U4 and maintain the registrations for only those principals and representatives who intend to engage or are engaged in the securities business of the Company. The Company will not maintain registrations for persons who no longer function as principals or representatives of the Company. Compliance will review the list of principals and registered representatives when the annual renewals take place in November/December. Renewal of each license will be evidence of said review.

*Form BD Amendments*

The Company will keep its membership application current by preparing amendments to its Form BD, not later than 30 days after learning of the facts or circumstances leading to any required amendment. Morris Monroe or Laura Hendricks will evidence approval of the change by signing and dating the amendment (which may be the electronic signature on the form submitted to FINRA).

Any applicable records of all Associated Persons shall be maintained by the Company for a period of three years after termination.

### 4.3.1 Fingerprint Requirements

Pursuant to SEC Rule 240.17f-2 of the Securities Exchange Act of 1934, Company shall require that each of its partners, directors, officers and employees be fingerprinted and shall submit, or cause to be submitted, the fingerprints of such persons to the Attorney General of the United States or its designee for identification and appropriate processing unless otherwise exempt.

*Permissive exemptions*

Every member of a national securities exchange, broker, dealer, registered transfer agent and registered clearing agency may claim one or more of the exemptions in paragraph (a)(1) (i), (ii), (iii) or (iv) of this section; *provided,* that all the requirements of paragraph (e) of this section are also satisfied.

(i) *Member of a national securities exchange, broker, dealer or registered clearing agency.* Every person who is a partner, director, officer or employee of a member of a national securities exchange, broker, dealer, or registered clearing agency shall be exempt if that person:

(A) Is not engaged in the sale of securities;

(B) Does not regularly have access to the keeping, handling or processing of (*1*) securities, (*2*) monies, or (*3*) the original books and records relating to the securities or the monies; and

(C) Does not have direct supervisory responsibility over persons engaged in the activities referred to in paragraphs (a)(1)(i) (A) and (B) of this section.

(ii) *Registered transfer agents.* Every person who is a partner, director, officer or employee of a registered transfer agent shall be exempt if that person:

(A) Is not engaged in transfer agent functions (as defined in section 3(a)(25) of the Securities Exchange Act of 1934) or activities incidental thereto; or

(B) Meets the conditions in paragraphs (a)(1)(i) (B) and (C) of this section.

(iii) *Registered broker-dealers engaged in sales of certain securities.* Every partner, director, officer and employee of a registered broker or dealer who satisfies paragraph (a)(1)(i)(B) of this section shall be exempt if that broker or dealer:

(A) Is engaged exclusively in the sale of shares of registered open-end management investment companies, variable contracts, or interests in limited partnerships, unit investment trusts or real estate investment trusts; *Provided,* That those securities ordinarily are not evidenced by certificates;

(B) Is current in its continuing obligation under §§ 240.15b1-1 and 15b3-1(b) to update Item 10 of Form BD to disclose the existence of any statutory disqualification set forth in sections 3(a)(39), 15(b)(4) and 15(b)(6) of the Securities Exchange Act of 1934;

(C) Has insurance or bonding indemnifying it for losses to customers caused by the fraudulent or criminal acts of any of its partners, directors, officers or employees for whom an exemption is being claimed under paragraph (a)(1)(iii) of this section; and

(D) Is subject to the jurisdiction of a state insurance department with respect to its sale of variable contracts.

(iv) *Illegible fingerprint cards.* Every person who is a partner, director, officer or employee shall be exempt if that member of a national securities exchange, broker, dealer, registered transfer agent or registered clearing agency, on at least three occasions:

(A) Attempts in good faith to obtain from such person a complete set of fingerprints acceptable to the Attorney General or its designee for identification and appropriate processing by requiring that person to be fingerprinted, by having that person's fingerprints rolled by a person competent to do so and by submitting the fingerprint cards for that person to the Attorney General of the United States or its designee in accordance with proper procedures;

(B) Has that person's fingerprint cards returned to it by the Attorney General of the United States or its designee without that person's fingerprints having been identified because the fingerprints were illegible; and

(C) Retains the returned fingerprint cards and any other required records in accordance with paragraph (d) of this section and §§ 240.17a-3(a)(13), 17a-4(e)(2) and 240.17Ad-7(e)(1) under the Securities Exchange Act of 1934.

*Other exemptions by application to the Commission*

The Commission, upon specified terms, conditions and periods, may grant exemptions to any class of partners, directors, officers or employees of any member of a national securities exchange, broker, dealer, registered transfer agent or registered clearing agency, if the Commission finds that such action is not inconsistent with the public interest or the protection of investors.

*Fingerprinting pursuant to other law*

Every member of a national securities exchange, broker, dealer, registered transfer agent and registered clearing agency may satisfy the fingerprinting requirement of section 17(f)(2) of the Securities Exchange Act of 1934 as to any partner, director, officer, or employee, if:

(1) The person, in connection with his or her present employment with such organization, has been fingerprinted pursuant to any other law, statute, rule or regulation of any state or federal government or agency thereof;

(2) The fingerprint cards for that person are submitted, or are caused to be submitted, to the Attorney General of the United States or its designee for identification and appropriate processing, and the Attorney General or its designee has processed those fingerprint cards; and

(3) The processed fingerprint cards or any substitute records, together with any information received from the Attorney General or its designee, are maintained in accordance with paragraph (d) of this section.

### 4.3.2 Registration Requirements

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

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

* Pass the SIE examination; and
* Pass a representative-level qualification examination (such as the Series 7 exam).
* Principals are required to pass the SIE, representative level, and principal-level qualification examinations.
* Compliance Officers qualifying on or after October 1 must qualify as a General Securities Representative including the SIE; General Securities Principal (Series 24); and Compliance Official (Series 14).
* Each person who is registered with FINRA as a General Securities Representative, United Kingdom Securities Representative, Canada Securities Representative, Options Representative, Registered Options Principal or General Securities Sales Supervisor is eligible to engage in security futures activities as a representative or principal, as applicable, provided that such individual completes a Firm Element continuing education program that addresses security futures products before such person engages in security futures activities.

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

Persons whose functions are solely and exclusively clerical or ministerial are not required to be registered.

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

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

SIE and MSRB exams are not required for the following:

* Municipal securities representatives who qualified via the general securities representative exam prior to November 7, 2011
* Municipal securities sales limited representatives qualified as a general securities representative via the general securities representative exam
* Persons qualified as a limited representative-investment company and variable contracts products via taking the exam for that qualification

Anyone who ceases association with a municipal dealer for two or more years is required to re-qualify.

**RR Numbers**

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

### 4.3.3 Record Maintenance

Company shall maintain a record and the disposition of the processed fingerprint card or any substitute record when such card is not returned after processing, together with any other information received from the Attorney General or its designee, for every person required to be fingerprinted.

## 4.4 Outside Business Activities (OBA) and Private Securities Transactions (PST)

In accordance with Rule FINRA **3270**, no RR shall accept compensation from any other person, or entity, as a result of any business activity, other than as a result of a passive investment, outside the scope of his/her relationship with the Company unless he/she provides prompt written notice to the Company prior to entering into such compensatory relationship, and the Company has approved such relationship in writing. Further, no RR of the Company shall participate in a private securities transaction without first obtaining the prior written approval of Morris Monroe or his designee. Included in Exhibit B of these procedures is an OBA form that should be used by RRs seeking to engage in an OBA and to submit to the Company. Company will provide the RR a response to the RR indicating either approved or disapproved.

Compensation may include salary, stock options or warrants, referral fees, or providing of services or products as remuneration. Generally, remuneration consisting of anything of present or future value for services rendered may be considered compensation. In addition, this may also include any activity in which there is no compensation, however, a position of control may exist for an entity (including charitable organizations).

Further, Company will have to consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person’s responsibilities to the Company’s and/or its customers, or (2) be viewed by customers or the public as part of the Company’s business. Based on the review, the Company will have to evaluate whether to impose specific conditions or limitations on a registered person’s outside business activity up to and including prohibiting the activity. Company will also have to evaluate the activity to determine whether the activity is truly an outside business activity or whether it should be treated as an outside securities activity subject to the requirements. Additionally, it should be noted that with respect to registered persons who are actively engaged in an outside business activity prior to the December 15, 2010 effective date of the Rule, Company will have until June 15, 2011 to review such pre-existing activities, utilizing the standards set forth in the Rule, and document its compliance with such standards.

To further detect any OBAs, Company will utilize a Certification Sheet included in any new representative package to ascertain any OBA at the onset of affiliation with Company. In addition, Company will address OBAs more thoroughly at its Annual Compliance Meeting to ensure better understanding and reporting requirements *(01/26/11)*.

### 4.4.1 Private Securities Transactions

***Definitions***

**“Private securities transaction"** shall mean any securities transaction outside the regular course or scope of an associated person's employment with a member, including, though not limited to, new offerings of securities which are not registered with the Commission, provided however that transactions subject to the notification requirements of Rule 3280, transactions among immediate family members (as defined in Rule 2790 "Purchase and Sale of IPOs of Equity Securities"), for which no associated person receives any selling compensation, and personal transactions in investment company and variable annuity securities, shall be excluded.

**"Selling compensation"** shall mean any compensation paid directly or indirectly from whatever source in connection with or as a result of the purchase or sale of a security, including, though not limited to, commissions; finder's fees; securities or rights to acquire securities; rights of participation in profits, tax benefits, or dissolution proceeds, as a general partner or otherwise; or expense reimbursements.

Prior to participating in any private securities transaction, an Associated Person shall provide written notice to the Company describing in detail the proposed transaction and the Associated Person’s role therein and stating whether he has received or may receive selling compensation in connection with the transaction; provided however that, in the case of a series of related transactions in which no selling compensation has been or will be received, an Associated Person may provide a single written notice. Subsequently, the Companyshall advise the Associated Person if the transaction is approved or disapproved. If approved, the Company shall maintain the transaction in its books and records and the applicable principal shall supervise the Associated Person’s participation in the transaction as if it were executed through the Company. If not approved, the Associated Person shall not participate in the transaction. In the case of transaction(s) where there is no selling compensation, the Company will provide the Associated Person with written acknowledgment of any notice and may, at its discretion, require certain conditions related to the transaction(s).

## 4.5 FINRA Rule 3220. Gifts & Gratuities/Influencing or Rewarding Employees of Others

In accordance with **Rule 3220** of FINRA Rules:

a) The Company nor any Associated Person shall, directly or indirectly, give or permit to be given anything of value, including gratuities, in excess of one hundred dollars **($100)** per individual per year to any person, principal, proprietor, employee, agent or representative of another person where such payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity. The rule protects against improprieties that may arise when members or their associated persons give gifts or gratuities to employees of a customer. A gift of any kind is considered a gratuity.

(b) This Rule shall not apply to contracts of employment with or to compensation for services rendered by persons enumerated in paragraph (a) provided that there is in existence prior to the time of employment or before the services are rendered, a written agreement between the member and the person who is to be employed to perform such services. Such agreement shall include the nature of the proposed employment, the amount of the proposed compensation, and the written consent of such person's employer or principal.

(c) A separate record of all payments or gratuities in any amount known to the Company, the employment agreement referred to in paragraph (b) and any employment compensation paid as a result thereof shall be retained by the Company for the period specified by SEA Rule 17a-4.

***Personal Gifts/Exclusions***

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

***De minimis and Promotional Items***

Rule 3220 also does not apply to gifts of de minimis value (e.g., pens, notepads or modest desk ornaments) or to promotional items of nominal value that display the Company’s logo (e.g., umbrellas, tote bags or shirts). In order for a promotional item to fall within this exclusion, its value must be substantially below the $100 limit. Gifts valued in amounts above or near $100 would not be considered nominal. For example, expensive leather luggage and crystal pieces, notwithstanding the presence of firm logos, are not eligible for the exclusion for promotional items of nominal value. FINRA also generally does not apply the prohibition to customary Lucite tombstones, plaques or other similar solely decorative items commemorating a business transaction, even when such items have a cost of more than $100. FINRA does not believe such gifts are items of value within the scope of the rule. The restrictions of Rule 3220 would apply, however, where the item is not solely decorative, irrespective of whether the item was intended to commemorate a business transaction. For example, FINRA staff observed firms providing individuals with a bicycle and elaborate electronic equipment following the closing of a transaction. Such items are impermissible gifts under the rule.

***Aggregation of Gifts***

Rule 3220 imposes a gift limit of $100 per individual recipient per year. To ensure compliance with this $100 limit, Company must aggregate all gifts given by each Associated Person to a particular recipient over the course of a year. In addition, Company is aggregating all gifts given by the Company and its Associated Persons on a calendar year basis beginning with the first gift to any particular recipient.

***Valuation of Gifts***

In general, gifts should be valued at the higher of cost or market value, exclusive of tax and delivery charges. When valuing tickets, a member should use the higher of cost or face value. For example, if a member makes a gift of a ticket to a sporting event that it procured in the secondary market, the value of such ticket would be the higher cost to the member, not the face value of the ticket. If gifts are given to multiple recipients, members should record the names of each recipient and calculate and record the value of the gift on a pro rata per recipient basis, for purposes of ensuring compliance with the $100 limit. A gift basket worth $250 delivered to an office of three individuals for the benefit of each individual would be permissible under the Rule.

***Gifts Incidental to Business Entertainment***

There is no express exclusion for gifts given during the course of business entertainment and conferences. Thus, for example, purchasing an umbrella during a round of golf would be considered a gift. The Company must record these gifts, and include the value of such gifts, as part of its Rule 3220 compliance procedures.

***Supervision and Recordkeeping***

All gifts applicable to the foregoing paragraphs in this section must be (i) reported to the Company, (ii) reviewed for compliance with said rule by Morris Monroe, Laura Hendricks, or the designated principal, including aggregation as discussed above, and (iii) maintained in the Company’s records. Items of de minimis value or nominal promotional or commemorative items are not subject to Rule 3220’s record-keeping requirements.

## 4.6 Outside Securities Accounts

In accordance with FINRA Rule **3210**, all Associated Persons shall be required to notify Morris Monroe or Compliance (may use notice found in Exhibit B of these procedures) of the existence of any securities accounts maintained by the Associated Person with any foreign or domestic brokerage firm, bank, investment adviser or other financial institution. Further, all Associated Persons shall be required to notify Morris Monroe or Compliance and the executing firm in writing, prior to opening a securities account or placing an initial order for the purchase or sale of securities with another firm, any foreign or domestic brokerage firm, bank, investment adviser or other financial institution. The written notice required hereby, shall advise the executing firm, foreign or domestic brokerage firm, bank, investment adviser or other financial institution of: (i) the person's association with the Company; (ii) the Company's membership with FINRA; and (iii) the fact that such person is a restricted person in accordance with FINRA Rules (provided however that if the account was established prior to the association of the person with the Company, the Associated Person shall notify both the Company and the executing firm in writing after becoming associated).

This includes any accounts where the employee has a beneficial interest or authority to make investment decisions for the following:

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

Finally, for purposes of this section, notification shall not be applicable to transactions and or accounts dealing exclusively in unit investment trusts and variable contracts or redeemable securities of companies registered under the Investment Company Act of 1940, as amended. In addition, pursuant to Rule 3050, the Company shall notify any person associated with another broker/dealer their desire to open an account with the Company. Further, Company will obtain copies of outside securities account statements to be reviewed by Compliance or Operations personnel (currently Gloria Sedita or Laura Hendricks initials) with random review by Laura Hendricks.

## 4.7 Executive Representative

In accordance with Article IV, Section 3 of FINRA By-Laws, Morris Monroe is the Company’s appointed “executive representative” as defined therein, who represents, votes, and acts for the Company in certain affairs of FINRA. Any changes to the executive representative shall be made electronically through FINRA firm gateway.

## 4.8 Charitable Contributions

A charitable contribution, as a result of a solicitation from an employee(s) or agent(s) of a customer or potential customer acting in a fiduciary capacity, could be construed as a conflict of interest similar to the payment of gifts or gratuities as established by FINRA Rule **3060**. The Company does not restrict contributions to charitable organizations by Associated Persons acting in their own capacity. The Company will not reimburse charitable contributions made by Associated Persons. The Company may choose to give charitable contributions on behalf of the Company with the approval of Morris Monroe (as evidenced by his check signature or credit card transaction).

## 4.9 Heightened Supervisory Procedures

A heightened level of supervision will be employed where any registered representative or office has a history of sales practice problems and/or a history of multiple customer complaints and arbitrations that were resolved against the registered representative. Morris Monroe will be responsible for the supervision of any registered representative who falls into any of the above categories. Morris Monroe will assess the degree of additional supervision needed based on the type and quantity of violations. Morris Monroe will notify the applicable registered representative of the additional supervision, its format, and length of time. Both Morris Monroe and the registered representative will sign an acknowledgment as to the terms and time for the special supervision. The product, customer, or activity type will be examined to determine if the representative’s activities will be restricted or additional reviews will be performed. When applicable, Morris Monroe or Laura Hendricks will review all new account forms for completeness and accuracy. Additionally, he will contact customers on a random basis to review the information with the client and note the review on the new account form. All trade corrections, extensions, and liquidations initiated by the registered representative must be approved in writing by Morris Monroe or Compliance. All communication with the public will receive prior approval in writing by Morris Monroe or Laura Hendricks before being utilized by the registered representative.

### 4.9.1 Supervision of Supervisors

Day-to-day customer account activity conducted by office managers, sales managers, regional or district managers or anyone performing similar supervisory qualifies for designation as a supervisor. Supervisors are subject to review and supervision by someone senior to or independent of the supervisor.

"Independent" means someone who:

* Does not report directly or indirectly to the person supervised;
* Is located in an office other than the person supervised;
* does not otherwise have supervisory responsibility over the activity being reviewed;
* Is not compensated directly or indirectly (in whole or part) on revenues accruing from the activities supervised; and
* Alternates the review responsibility with another qualified person every two years or less.

However, as mentioned in Section 3.5.3, Company is limited in size and resources and claims exemption from the independent review of supervisors. The limiting factors include that there are no supervisors senior to or independent of the applicable supervisors. However, a qualified person conducts reviews and is knowledgeable of Company's policies and control procedures.

The reviews to be conducted by the Compliance Department are determined by the nature of the customer account activity. Supervision will be substantially comparable to areas supervised for other RRs engaged in similar customer account activity. Those reviews are described throughout this manual.

Compliance will determine the areas to be supervised and incorporate them in a Supervisor’s Checklist to be completed by the reviewer, retained as part of a Company’s office inspections.

## 4.10 Investment Advisory Activities of Associated Persons

The Company will not hire registered representatives who are independently RIA registered. However, Company may hire an Associated Person who is dually appointed with another RIA provided they are not conducting transactions through another broker dealer (08/20/08).

In the event the Company decides to hire registered representatives or Associated Persons in the future who are independently registered as investment advisers, the following supervisory policies and review procedures will immediately be put into place.

It is imperative that the Company know and understand the nature of the securities business of its registered employees who are involved in executing securities transactions away from the Company. To this end, FINRA has interpreted FINRA Rule 3040 to apply to a registered representative of this Company who is also a registered investment adviser participating (in his/her capacity as an investment adviser) in the execution of a trade at a broker/dealer other than the Company or Avior Wealth Management, LLC (Avior).

Rule **3040** requires a person registered with the Company, PRIOR to his or her participating in any private securities transactions, to provide written notice to the Company describing in detail the proposed transaction and his/her proposed role, including information as to whether he or she has received, or may receive, selling compensation in connection with the transaction. The Company will advise the individual, in writing, as to whether it approves or disapproves of the participation as described.

If the registered representative/adviser does not go beyond making a mere recommendation and the customer independently executes the order with another broker/dealer, directly with a mutual fund or with a third-party investment adviser, FINRA Conduct Rule 3040 does not apply but FINRA Conduct Rule 3030 (calling for a registered representative to provide prompt written notice of any outside business activity) WOULD apply. Any investment adviser who is also a registered representative must require duplicate confirmations to be providedfor any transaction executed through a broker/dealer other than the Company or RIA.

If Company approves the individual's participation in an "away" transaction (in which the Associated Person has received or may receive selling compensation), a record of the transaction will be maintained, and the Company will supervise the participation in the transaction as if it were executed by the Company.

An example of a registered representative/registered investment adviser ("RR/RIA") participating in the execution of trades "away," is when he or she enters an order for an advisory customer with a brokerage firm other than the Company or RIA, or directly with a mutual fund, or with any other entity (including another adviser) and received any compensation for the overall advisory services. Conduct Rule 3040 (and the responsibility for the Company to supervise and maintain records on this transaction) would apply in this instance except as otherwise agreed to by the Company and the other broker/dealer firm. The RR/RIA will not be required to get prior approval from the Company for each transaction.

Any registered person of the Company who are also registered as investment advisers and who will be "selling away" must provide, in writing, a clear description of their proposed activities, detailing the types of securities that would be executed, the service to be provided, compensation and compensation arrangements and a list of customers for whom this would apply. The document is to be updated as circumstances apply (i.e. additional clients, a change in the way services are offered, transactions are executed, etc.).

Personnel files or other records for RR/RIA employees will be maintained to ensure the maintenance of (a) records of the registered representative's notice to the Company of their outside activities (which may be in the form of the Form U-4 for Avior), (b) any subsequent changes to the notice, (c) the Company's letter of approval or disapproval (which may be in the form of the processed Form U-4 for Avior), and (d) any other documents the Company’s compliance personnel have indicated are required in this situation.

Customer records will be reviewed for such items as (a) copy of the registered representative’s advisory contract and any discretionary agreement used, (b) duplicate confirmations and account statements regarding the "away" transactions and (c) account opening cards, including investment objectives.

Because the Company is responsible for supervising such transactions as if the transaction had been executed on its behalf, the Company will, in each instance of such "away" transactions, conduct a common-sense test to determine the appropriate level of due diligence required on the security, what suitability determinations are required, etc.

### 4.10.1 Registered Investment Advisor Agents

There are registered representatives of the Company who are also registered agents of a Registered Investment Advisor (“RIA”). These policies are designed to supervise the activities of such dually registered individuals.

1. **Agents**: RRs who are also appointed as registered Agents of RIA may recommend customers or potential customers of RIA. This may include providing investment advice to customers including guiding the customer's selection of an investment program and the underlying products in the program. Only communications already approved by Company or RIA may be used for such activities. Said Agents will share in the investment fee charged to any applicable client accounts. Such fee sharing arrangement will be disclosed to clients in a fee disclosure form at or prior to opening the client account. Agents complete an Agent Agreement with RIA which is accessible and available for review by the Company.
2. **New Accounts**: All new RIA accounts will be reviewed by Company or RIA Compliance Department for best interest, document completion, and proper submission of funds. Such review will be evidenced in WinOps or other program with the date and initials of reviewer.
3. **Communication with the Public**: All electronic communication is currently archived for both Company and RIA in a shared archiving system. Emails are reviewed on a random basis at least once a week. Any paper communications to 25 or more people related to RIA business must be submitted to Company or RIA Compliance Department for review, approval, and recordkeeping.
4. **Trading**: All RIA trades are executed through the Company or RIA home office. All RIA trades and trade tickets are reviewed by the Trading Department or by Morris Monroe and Compliance. Compliance evidence said review by maintaining blotters of trades. All RIA model decisions and modifications are made at the home office by Morris Monroe along with a support staff and logged in an excel spreadsheet that is maintained by Company for recordkeeping. Trade allocations, identifying the name or designation of the accounts for which the order is to be executed, must be received at the time but no later than noon of the next business day following the trading session. Allocation will be maintained with the order memorandum.
5. **Written Supervisory Procedures (“WSP”)**: RIA maintains written supervisory procedures in addition to Company and are reviewed and approved by an RIA principal and Compliance Department. RIA WSP also maintains procedures for Anti-Money Laundering, Regulation S-P, Insider Trading, etc. Associated Persons acknowledge receipt and compliance with both WSPs on at least an annual basis and said acknowledgements are maintained in Company’s records. In addition, both company WSPs are accessible to all Associated Persons on Company website.
6. **Outside Business Activity/PST**: Agents will complete a signed and dated written notice to the Company to engage in such activities. Such Notice can be in the form of Company’s OBA/ Outside RIA Activities Form. Company will sign, date, approve or not approve such activity, and keep such records as part of its books and records for three years after termination. Company will report the investment advisory agent activity as an outside business activity on applicable Form U-4s.
7. **Annual Compliance Meeting and Continuing Education**: Both companies conduct an annual compliance meeting and/or continuing education to discuss and review relevant regulatory rules and information applicable to each company. Company maintains a record of such meetings and a log of attendees as part of its books and records.
8. **Annual Regulatory Checklist**: Company provides and maintains an annual regulatory checklist of Associated Persons of both companies that collects such regulatory information such as OBAs, PSTs, address changes, Prohibited Acts, etc. Company relies on such information for both companies and maintains such checklists as part of its books and records.
9. **Office Reviews**:

* **Home Office**: Both Company and RIA are reviewed on at least an annual basis for compliance with SEC Rules 17a-3 and 17a-4 recordkeeping requirements. RIA review is accessible to Company.

1. **Other Books and Records**: RIA books and records are maintained in the RIA home office and reviewed on at least an annual basis. Specifically, (and pursuant to FINRA Notice 96-33), the following records will also by maintained by Company:

* A List of approved Agents (which is maintained as part of Exhibit A attached);
* A list of RR/IA customers, including those that are customers of both the Company and RIA with a cross reference to the RR/IA. This is accomplished in WinOps or Black Diamond (and potentially Selentica or Salesforce-CRM);
* New Account documents - RIA Investment Agreement (which grants discretionary authority) and includes the Agent Disclosure;
* RIAcustomer statements;
* Any RIA communications with the public

1. **Dually Registered Agents**

If a registered Agent of Company is dually registered as a registered investment advisor representative of RIA (*i.e.,* in addition to being a registered representative), Company will ensure that clients interacting with such Agent is fully aware of the capacity the Agent is acting: either as an “Advisor” as an investment adviser representative of Company or a “Broker” as a registered representative of the broker-dealer. In determining the capacity of an Agent, Company and/or such employee shall consider:

* the type of account;
* how the account is described;
* the type of compensation; and
* the nature of the service (*i.e.;* advisory or brokerage) being provided.

Company’s New Account Form is utilized to disclose such capacity to Clients. Furthermore, registered representatives not registered with the RIA as an Agent, may not use the words “Advisor, Adviser, nor Financial Advisor/Adviser” in any marketing material.

## 4.11 Statutorily Disqualified Individuals or Inactive Registered Personnel.

It is the Company’s position not to hire any associated person who has been statutorily disqualified or deemed inactive. However, in the event this should occur due to individuals who may become subject to statutory disqualifications as a result of a felony conviction or regulatory suspension, revocation of registrations or injunctions (including actions by domestic regulators including the CFTC and actions by foreign regulators), the following procedures will be in effect:

*(The definition of statutory disqualification is included in Section 3(a)(39) of the Securities Exchange Act of 1934. FINRA Regulatory Notice 09-19 includes a chart in Attachment B that outlines statutory disqualification under the Rule.)*

Any prospective employees (including those engaged solely in clerical and/or ministerial activities) are subject to background investigations that include identification of potential statutory disqualification. Prior to hiring an individual subject to a statutory disqualification, Compliance should be consulted to review the nature of the statutory disqualification and potential heightened supervision that may be required. When an existing employee becomes subject to a statutory disqualification, Company is required to submit an application to continue associating with a disqualified person and establish an interim plan of heightened supervision in effect throughout the application review process.

Compliance is responsible for completion and filing of the appropriate regulatory form or application, which will be signed by a senior officer or partner of Company. A hearing may be required prior to approval of a new employee or existing employee's continued association with Company.

In addition, Compliance will establish procedures to carry out the supervision required under agreement with the SRO reviewing the disqualified person, including records of supervision to be conducted by the designated supervisor. The supervisor assigned to supervise the statutorily disqualified person will be provided a copy of the procedures which must be signed by the supervisor who is then responsible for carrying them out. When an employee becomes subject to a statutory disqualification, Compliance will file the necessary registration updates and, in addition, the required notification on the quarterly complaint report will be made to regulators consistent with those SRO's reporting requirements.

* 1. CUSTOMER RELATIONS: All securities transactions conducted by an associated person who has been readmitted by FINRA after having been statutorily disqualified shall be reviewed and approved in writing by Morris Monroe, or designated principal, prior to execution. All correspondence dealing with the solicitation of securities transactions with customers of the Company, or the solicitation of funds on behalf of customers of the Company shall be reviewed and approved in writing by Morris Monroe, or designated principal, prior to dissemination. It is the Company's position that it will not allow any clients of an associated person who has been readmitted by FINRA after having been statutorily disqualified to participate in discretionary accounts.

Further, it is the Company's position that in order for any individual to become associated after having been previously statutorily disqualified shall consent to a six (6) month strict probationary period during which; (1) Morris Monroe may accompany the associated person to any meetings the associated person might have with clients of the Company; (2) Morris Monroe shall randomly spot check phone conversations as they transpire between the associated person and clients of the Company; and (3) clients of the Company may be contacted by Morris Monroe and questioned as to representations made by the associated person during their course of dealings with the subject associated person.

2. CUSTOMER COMPLAINTS: With respect to customer complaints, any complaint directed to or uncovered by Morris Monroe will be entered as a matter of record and a written file maintained with respect to the complaint detailing the disposition of such customer complaint. Morris Monroe will have the absolute right to determine the disposition of all customer complaints. Further, it shall be the responsibility of Morris Monroe to timely report all customer complaint information and other specified events, electronically, to FINRA/CRD in accordance with FINRA Rule 4530. In this regard, on behalf of the Company, Morris Monroe shall promptly report within 10 business days of when the Company becomes aware of the complaint.

3. CONDUCT OF ACCOUNTS: When an associated person, who was previously statutorily disqualified, receives a customer order said order is to be entered through Morris Monroe's office and shall be reviewed and accepted on behalf of the Company prior to execution. Access to any trading modules is strictly prohibited. All order approved computers are login/password protected and are logged out when not at the computer.

4. RECORDKEEPING: Where an associated person has been readmitted after having been statutorily disqualified, a log will be maintained of said individual's contacts with clients of the Company. This will be stored and maintained in the computer system of the company.

5. COMPLIANCE MEETINGS: Where an associated person has been readmitted after having been statutorily disqualified, all such individuals shall attend mandatory compliance meetings to be held by Morris Monroe or his designee. Such meetings will cover at a minimum: (i) current projects being worked on by the associated person with an emphasis on compliance issues relating thereto; (ii) a question-and-answer period in which the associated person may ask any question he/she may have and receive authoritative guidance concerning compliance issues relating thereto; (iii) a review of regulatory developments, firm policies and similar information. As evidence of attendance of such compliance meetings, attendance records will be maintained by the Company which shall reflect the date and location of the meeting, those in attendance and the subjects discussed.

Should a suspension, revocation, cancellation, or bar occur for a current Associated Person, these procedures will be followed:

1. Report the disciplinary action of the applicable Associated Person’s U-4;
2. If a suspension, a) note the suspension dates in the CRM database; b) In the HTS system, restrict the Associated Person by opening a case to mark inactive; c) set future action in the CRM for end of suspension date to unrestricted RR at HTS; d) the Company will not pay the Associated Person any remuneration during the suspension period. The Associated Person will be marked as inactive in the accounting/payroll system to ensure that no remuneration can occur; e) no securities business can be conducted, including but not limited to, solicitation of securities business, securities transactions, communication with the public, and suspension of commissions. AP will be put under special supervision. Morris Monroe will have the responsibility for the special supervision and for ensuring these procedures are followed.

3. File Form U-5 if applicable for Revocation, or bar.

## 4.12 FINRA Rule 2150 - Prohibitions against Guaranteeing Performance Results of Customer’s Investments *(eff 12/14/09)*

Pursuant to FINRA Rule **2150** *(old 2330),* neither the Company nor any Associated Person shall in any way guarantee the performance results of a customer’s investment (a "guarantee" that is extended to all holders of a particular security by an issuer as part of that security generally would not be subject to the prohibition against guarantees). In addition, an Associated Person who intends to share in a customer account in accordance with the Rule must obtain prior written authorization from the Company to engage in such account. Subsequently, the customer(s) written authorization and approval must also be obtained prior to account transactions and any sharing must be only in direct proportion to the financial contributions made to such account by either the Company or Associated Person (except accounts of the immediate family of such Associated Person). For purposes of this Rule, the term "immediate family" shall include parents, mother-in-law or father-in-law, husband or wife, children or any relative to whose support the Associated Person contributes directly or indirectly).

Any Associated Person acting as an investment adviser may receive compensation based on a share in profits or gains in an account if the Associated Person seeking such compensation obtains prior written authorization from the Company and such compensation obtains prior written authorization from the customer; and all of the conditions in Rule 205-3 of the Investment Advisers Act (as the same may be amended from time to time) are satisfied.

Both Company and customer authorizations will be maintained with the account documents as well as in a centralized location for the duration of the account and 6 years after closing.

Nothing in this Rule shall preclude Company, but not an Associated Person of the Company, from determining on an after-the-fact basis, to reimburse a customer for transaction losses; provided, however, that the Company shall comply with all reporting requirements that may be applicable to such payment. For example, if the payment can reasonably be construed as a settlement, the member shall report the payment as a settlement under the applicable reporting requirement(s). In addition, nothing in this Rule shall preclude a member, but not an Associated Person of the Company, from correcting a bona fide error or reimburse excessive commission(s). This does not apply to an Associated Person of Company because of the concern that any such payment may conceal individual misconduct.

## 4.13 Unauthorized Trading

"Unauthorized Trading", which refers to executing trades in a client's account without specific authorization, is forbidden by the Company and may be considered a violation of FINRA Rules. Failure to contact the customer or the customer's agent can result in the customer later rescinding the transaction because it was not authorized. Engaging in unauthorized transactions subjects the employee to regulatory and Company discipline which may include fines and/or termination depending on the seriousness of the violation. If Company determines an RR engaged in unauthorized trading, any related losses will be charged directly to the RR.

RRs must also avoid "inadvertent" unauthorized transactions such as accepting an order from a husband for a wife's account where the wife has not signed a trading authorization giving her husband authority to trade on her behalf. Doing a customer a "favor" by entering an order when he or she cannot be reached may be construed as good customer service by the RR but in reality, is a rule violation and subjects the RR and Company to potential liability for losses from unauthorized transactions.

## 4.14 Discretionary Accounts

The Company does not permit discretionary accounts without Company authorization. If the Company detects the existence of such account, the account will be frozen, and an investigation conducted. Violations could result in possible fines, suspension, and or terminations.

## 4.15 Day Trading Accounts

The Company does not allow day trading accounts.

## 4.16 Mark-ups and Commission Charges

Morris Monroe, his designee or the designated onsite Principal shall supervise securities transactions whether by reviewing each order ticket or by reviewing the purchase and sales blotter with commission (mark-ups) noted. This will ensure that the Company's mark-up policies for riskless principal transactions, and commission charges for agency transactions, are being adhered to.

The Company's mark-ups and commission charges will be based upon all relevant factors including:

1. Type of security involved;

2. Availability of the security in the market;

3. Price of the security;

4. Disclosure to the customer;

5. Profit resulting from transaction; and

6. Amount of money involved.

In the cases of riskless principal transactions that may occur for corporate or government debt, the mark-up will be based upon contemporaneous cost. It is understood that the 5% mark-up/commission policy represents a guideline only and that Morris Monroe, his designee or the designated onsite Principal’s judgment is necessary in fulfilling the Company's responsibility in determining the fairness of the mark-ups.

## 4.17 Misuse of Customer Account Statements or Confirmations

Any misuse or tampering of customer account statements or confirmations is strictly prohibited, is a violation of industry rules, and will be cause for immediate termination and reporting to applicable regulators.

## 4.18 Front Running of Block Transactions

Pursuant to FINRA Rule 5270, no Associated Person may purchase or sell or cause the purchase or sale of a security or related financial instrument for an employee or employee-related account prior to the time information concerning the block transaction has been made publicly available or has become stale or obsolete.

This Rule applies to orders caused to be executed for any account in which Company or Associated Persons have an interest, any account with investment discretion, or for accounts of customers or Company affiliates when the customer or affiliate has been provided such material, non-public market information by Company or any Associated Persons.

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

## 4.19 Rule 2790 – Restrictions on the Purchase and Sale of IPOs of Equity Securities

Rule 2790 replaces the Free-Riding and Withholding rules and deals with the restrictions on the purchase and sale during the initial offering period by a broker-dealer or one of its registered representatives (or a member of his/her immediate family or anyone materially supported by an employee or a member of the employee’s immediate family). Registered personnel are not considered members of the general public and are restricted from these issues. FINRA penalties for proven violations are virtually automatic and normally include censure plus fines in the amount of all profits received.

No registered representative of the Company may participate in any initial public offering of any security without prior written notice to and consent of Morris Monroe or his designee. This requirement applies to all trades executed in any account maintained by a registered representative at any other firm.

It shall be inconsistent with high standards of commercial honor and just and equitable principles of trade for the Company, or a person associated with the Company, to fail to make a bona fide public distribution at the public offering price of securities of a public offering. This shall be the case whenever such issue begins regardless of whether such securities are acquired by the Company as an underwriter, a selling group member or from a broker-dealer participating in the distribution as an underwriter, selling group or otherwise.

Therefore, it shall not be permitted for the Company, or a person associated with the Company, to do any of the following:

1. Continue to hold any of the securities so acquired in any of the Company's accounts;

2. Sell any of the securities to any officer, director, general partner, employee or agent of the Company or of any other broker-dealer, or to a person associated with the Company or with any other broker-dealer, or to a member of the immediate family of any such person within certain provisions;

3. Sell any of the securities to an individual who is a finder with respect to a public offering or to any person acting in a fiduciary capacity to the managing underwriter, including, among others, attorneys, accountants and financial consultants, or to any other person who is supported directly or indirectly, to a material extent, by any person specified in this paragraph;

4. Sell any of the securities to any senior officer of a bank, savings and loan institution, insurance company, investment company, investment advisory firm or any other institutional type account (including, but not limited to, hedge funds, investment partnerships, investment corporations, or investment clubs), domestic or foreign, or to any person in the securities department of, or to any employee or any other person who may influence or whose activities directly or indirectly involved or are related to the function of buying or selling securities for any bank, savings and loan institution, insurance company, investment company, investment advisory firm, or other institutional type account, domestic or foreign or to any other person who is supported directly or indirectly, to a material extent, by any person specified in this paragraph;

5. Sell any of the securities to any account in which any person specified under the above paragraphs has a beneficial interest, provided, however, the Company may sell part of its securities acquired as described above to:

a. Persons enumerated in paragraphs (3) or (4) above;

b. Members of the immediate family of persons enumerated in paragraph (2) above, provided that such person enumerated in paragraph (2) does not contribute directly or indirectly to the support of such member of the immediate family; and

c. Any account in which any person specified under paragraph (3) or (4) or subparagraph (b) of this paragraph has a beneficial interest; provided that the Company is prepared to demonstrate that the securities were sold to such persons in accordance with their normal investment practice, that the aggregate of the securities so sold is insubstantial and not disproportionate in amount as compared to sales to members of the public and that the amount sold to any one of such persons is insubstantial in amount;

6. Sell any of the securities, at or above the public offering price, to any other broker-dealer; provided, however, the Company may sell all or part of the securities acquired as described above to another broker-dealer upon receipt from the latter in writing of assurance that such purchase would be made to fill orders for bona fide public customers, other than those enumerated in paragraphs (1), (2), (3), (4) or (5) above, at the public offering price as an accommodation to them and without compensation for such;

7. Sell any of the securities to any domestic bank, domestic branch of a foreign bank, trust company or other conduit for an undisclosed principal, within certain provisions; and

8. Sell any of the securities to a foreign broker-dealer or bank, within certain provisions.

The prohibitions referred to above shall not apply (i) to a person in a limited registration category, and (ii) to sales to a member of the immediate family of a person associated with the company who is not supported directly or indirectly to a material extent by such person, if the sale is by a broker-dealer other than that employing the restricted person and the restricted person has no ability to control the allocation of the hot issue (certain additional restrictions apply).

For the purposes of this WSP, the term "immediate family" shall mean, with respect to a person, his or her parents, mother-in-law or father-in-law, husband/or wife, brother or sister, brother-in-law or sister-in-law, son-in-law or daughter-in-law, and children. In addition, the term shall include any other person who is supported, directly or indirectly, to a material extent by the broker-dealer or associated person.

## 4.20 Fictitious Accounts

Establishing fictitious accounts in order to execute transactions is strictly prohibited and considered a fraudulent practice. For example, such accounts could not be used to illegally purchase “hot issues” since the selling broker-dealer nor the registered representative's broker-dealer would have knowledge of the transaction. Similarly, a registered representative could conceal his/her involvement in an account of an immediate family member in order to execute transactions which otherwise would be prohibited.

## 4.21 Non-Branch Business Activities

Any Associated Person not assigned to a registered branch office is required to conduct their securities business through a registered branch. No Company records may be maintained at the Associated Person’s location. A review of transactions and original applications and forms will ensure this procedure is followed.

## 4.22 Lending or Borrowing Money (Rule 3240 *eff 06/14/10*)

Pursuant to FINRA Rule 3240, the Company will adhere to the following procedures for such activities of lending to or borrowing money from a customer. This policy will be reviewed at least annually and will be only allowed under the following five permissible events: (7/25/08)

* The customer is a member of the registered person's immediate family (*parents, grandparents, mother-in-law or father-in-law, husband or wife, brother or sister, brother-in-law or sister-in-law, son-in law or daughter-in-law, children, grandchildren, cousin, aunt or uncle, or niece or nephew, and any other person whom the registered person supports, directly or indirectly, to a material extent.);*
* The customer is in the business of lending money acting in the course of such business;
* The customer and the registered person are both registered persons of the same firm;
* The lending arrangement is based on a personal relationship outside of the broker-customer relationship; or
* The lending arrangement is based on a business relationship outside of the broker-customer relationship.

With the exception of lending or borrowing between immediate family members and between registered persons and customers who are in the business of lending, written approval must be obtained prior to any other lending arrangements described above or any modification of such arrangement, including extensions of duration. Such written pre-approvals shall be maintained for a period of three years after the date such lending arrangement has terminated or at least for three years subsequent to the registered person’s termination. Morris Monroe will have the responsibility of pre-approving any loan in writing and maintain such approval as part of its records.

## 4.23 Rumors

No employee may spread any rumors or misinformation that the employee knows to be false or misleading. This includes rumors of a sensational character that might reasonably be expected to affect market conditions. Discussion of unsubstantiated information published by a widely circulated public media is not prohibited providing the source and unsubstantiated nature are also disclosed. As part of routine reviews of correspondence, any communications that appear to spread rumors will be targeted for investigation by Compliance by contacting RR regarding source of information, if false rumors are identified, Compliance will confer with Morris Monroe, any corrective action may include contacting recipients of correspondence containing false rumors; enhanced training for RR; disciplinary action appropriate to the offense.

## 4.24 Taping Rule

Per Rule 3170, the Taping Rule, should the Company hire a certain percentage of registered persons that have been employed by a Disciplined Firm, the Company will tape record all telephone conversations between the Company's registered persons and both existing and potential customers. A Disciplined Firm includes a notice registered broker/dealer that (1) has been formally charged by either the CFTC or a registered futures association with deceptive telemarketing practices or promotional material relating to security futures, those charges have been resolved, and the Futures Commission Merchant (FCM) or Introducing Broker (IB) has been closed down and permanently barred from the futures industry as a result of those charges; or (2) an FCM or IB that, in connection with sales practices involving the offer, purchase, or sale of security futures is subject to an order of the SEC revoking its registration as a broker or dealer. FINRA will notify BrokerCheck if the Company becomes subject to the Taping Rule.

## 4.25 Supervision of Recommendations by Newly Registered Representatives

The Company will ascertain any accounts by newly registered representatives as to the their current customers who may hold mutual funds or variable annuities and determine whether the Company may need to obtain any selling agreements to change the broker/dealer of record and supervise any recommendations by the newly registered representative for switches or exchanges as to whether they are in the best interest of the customer and ensure any documentation of such is maintained by the Company.

## 4.26 Personal Transactions & Related Accounts

All personal trades will be conducted through the home office trading desk for in house accounts. If known that a personal trade will also involve the same position for customer(s), all applicable trades will be handled through the home office trading desk as well to ensure that customer orders are entered prior to related persons trades. The customer's interest has precedence over any Associated Person's personal interest. While there is no standard that applies in every case, in general, Associated Persons will solicit customer orders before entering orders for personal accounts in the same security. When an Associated Person receives a better price in a security the same day the customer executes an order in the same security on the same side of the market (buy or sell), the customer will generally receive the better price unless there are circumstances that justify the Associated Person's better price (time of order entry, inability to reach customer, *etc.*) or the price difference is so miniscule to be significant (generally a matter of a few cents or dollars in price). Associated Person trades are reviewed on a sampling basis at least monthly within the blotters and outside account statements.

### 4.26.1 Prohibited Trading Activities

Personal trading activities prohibited include:

* Trading in securities for personal accounts, or for accounts of family members or affiliates, shortly before trading the same securities for clients (*i.e.,* front-running), and thereby receiving better prices (unless of such nominal value that would not affect the price or unknown customer transactions); and
* Directing clients to trade in securities in which any Associated Person has an undisclosed interest, causing the value of those securities to increase to the Associated Person’s benefit.

### 4.26.2 Internal Investigation of Transactions

Company reviews securities transactions to identify trades that may violate provisions of the Exchange Act and its rules, rules of exchanges, or FINRA rules prohibiting insider trading and manipulative and deceptive devices. However, since Company is not involved with investment banking activities as defined in FINRA Rule 3110(d)(4)(B), it is not required to file internal investigation reports with FINRA. Employee and employee related accounts ("covered accounts") are subject to review by Company. Covered accounts include:

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

In addition, accounts subject to review include any account where an employee has a beneficial interest or the authority to make investment decisions (for example, trust accounts, accounts for minors, *etc.*). "Accounts" also include securities or commodities accounts at the Company or other financial institutions including foreign or domestic broker-dealers, investment advisers, banks and other financial institutions ("outside accounts" discussed in the next section).

Company must be notified of any outside securities accounts and receive duplicate statements that will be reviewed and maintained as part of the Company’s books and records for a period of three years. Statements may be reviewed by Morris Monroe, Laura Hendricks, or other Compliance personnel.

If a potential violation is identified, Compliance will:

* Review the circumstances of the transaction including contact with the RR and RR's supervisor.
* Determine whether a violation has occurred.
* Determine (in consultation with outside counsel or others, if necessary) what corrective action should be taken.
* Report to FINRA within 5 business days any internal investigation that concludes a violation has occurred.
* File a quarterly report with FINRA of internal investigations within 10 business days of the end of each calendar quarter.
* Determine whether the violation must be reported in another form such as updating Form U4 or U5.

### 4.26.3 FINRA Rule 3241-Named as Customer’s Beneficiary or Holding a Position of Trust *(eff. 2/15/21)*

Pursuant to Rule 3241, Associated Persons, RRs, are limited from being named a beneficiary, executor or trustee, or having a power of attorney or similar position of trust for or on behalf of a customer.\*  The RR is responsible for immediately notifying Compliance of any such potential designation. The notice requirement includes RRs who hold a beneficiary or position of trust status for an account transferring from a prior employer; the transferring RR must provide notice within 30 days of employment.

These limitations do **not** apply where the customer is a member of the registered person's "immediate family\*\*." In addition, a registered person who does not have customer accounts assigned to him/her is not subject to these requirements.

Exceptions to this limitation must be requested, in writing, from Compliance. The request must include the name(s) of the customer's account(s) and in what role the registered person will act (beneficiary, executor, trustee, *etc.*) as well as the following:

* length and type of relationship between the customer and the registered person;
* the customer's age;
* the size of any bequest relative to the size of the customer's estate;
* any remuneration to be paid to the RR; and
* any customer mental or physical impairment that renders the customer unable to protect his or her own interests.

Registered persons may **not** accept such a role without **prior** approval from Compliance. In addition, a registered person may not instruct or ask a customer to name another person, such as the registered person's spouse or child, to be a beneficiary of the customer's estate or to receive a bequest from that estate.

In the event a registered person unknowingly becomes the subject of these limitations (*e.g.,* notification of receiving a bequest, being named an executor, *etc.*), the registered person is obligated to decline the role or bequest unless written notice is provided to Compliance and approval is received.

\*"Customer" under this Rule includes any customer that has, or in the previous six months had, a securities account assigned to the registered person including a brokerage account, mutual fund account or variable insurance product account and accounts held directly at a mutual fund or variable insurance product issuer. It also includes someone who is a customer of another broker-dealer which subjects the activity to Rule 3241 on limitations explained in this section as well as Rule 3270 regarding outside business activities.  
  
\*\*For purposes of Rule 3241, "immediate family" includes parents, grandparents, in-laws, spouse or domestic partner, sibling, children, grandchildren, first cousin, aunt or uncle, niece or nephew, and any other person who resides in the same household as the registered person and the registered person financially supports, directly or indirectly, to a material extent, and including step and adoptive relationships.

## 4.27 FINRA Rule 2060-Use of Information Obtained in Fiduciary Capacity *(eff 2/15/10)*

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

## 4.28 Enhanced & Non-Cash Compensation

Company may hire experienced Registered Reps from other broker/dealers and offer **enhanced compensation** to attract qualified individuals for employment and to assist in the transition period when a Rep moves from another firm. Compensation agreements may include up-front bonuses, higher payouts for a period of time, payment of licensing fees (where the Company otherwise would not pay them) and other enhanced compensation determined at the time an offer is made. During the time of enhanced compensation, any applicable Rep’s business will be reviewed by Compliance to specifically identify any improper activity to maximize commissions such as churning or unsuitable recommendations. If any improper activities are identified, corrective action may be taken which may include conferring with the Rep, contacting customers, cancelling transactions, or any other corrective action deemed appropriate.

Regulators' rules restrict compensation relating to the sale and distribution of debt, equity, direct participation program (DPP), REIT securities, and municipal securities. Employees may not accept (directly or indirectly) cash or non-cash compensation from outside firms or persons. The only exception includes compensation arrangements specifically approved by Company. Sales contests, sales quotas, bonuses, and non-cash compensation based on the sale of specific securities or securities types within a limited period of time are not permitted. These activities must be consistent with the applicable requirements of Regulation Best Interest.

The following types of **non-cash compensation** are allowed provided they are **not preconditioned on achieving a sales goal:**

* Gifts amounting in aggregate value not exceeding $100 annually, per person. All gifts must be reported to Compliance under Company's Gifts, Gratuities and Entertainment policy.
* An occasional meal, ticket to a sporting event or show, or comparable entertainment that is not so frequent nor so extensive as to raise any question of propriety.
* Payment or reimbursement in connection with training or educational meetings, subject to several conditions. *Note:* Prior approval must be obtained from the designated supervisor before participating in such meetings.
* The location of the meeting is appropriate for its purpose, *e.g.,* a U.S. office of the offeror or member holding the meeting, or a facility located in the vicinity of such office, or a U.S. regional location with respect to meetings of associated persons who work within that region or where a significant or representative asset of a DPP or REIT is located (inspection of real estate, oil and gas production facilities, and other types of assets that will be held and managed by the program). The designated supervisor will determine the appropriateness of the meeting.
* Only expenses incurred by Company or its employees are eligible for payment. Expenses for guests of employees (spouse, *etc.*) will not be reimbursed.
* Refer to the section *Conflicts Of Interest* in the chapter *REGULATION BEST INTEREST (BI)* for details regarding conflicts involving compensation.
* RRs shall complete a Non-Cash Compensation notice form and provide to the designated supervisor and/or Compliance for approval and recordkeeping.

Non-cash sales incentive programs **may be preconditioned on achieving a sales goal** provided they are pre-approved in-house incentive programs sponsored by Company and meet the following criteria:

* The program must be based on the RR's total production with respect to all of that type of security sold by Company (investment company, DPP, *etc.*).
* Credit received for each security is equally weighted.
* Only Company employees may participate.

Other firms may make contributions to the program, provided they do not participate, directly or indirectly, in the organization of the program. However, the outside entity may provide a speaker for the meeting.

## 4.29 FINRA Rule 5290 - Trade Shredding *(eff 2/15/10)*

Company or Associated Persons shall not engage in conduct that has the intent or effect of splitting any order into multiple smaller orders for execution or any execution into multiple smaller executions for transaction reporting for the primary purpose of maximizing a monetary or in-kind amount to be received by Company or Associated Person as a result of the execution of such orders or the transaction reporting of such executions. For purposes of this Rule, “monetary or in-kind amount” shall be defined to include, but not be limited to, any credits, commissions, gratuities, payments for or rebates of fees, or any other payments of value to the member or Associated Person.

## 4.30 The Foreign Corrupt Practices Act (FCPA)

Company has a commitment to comply with all Federal and regulatory requirements including with the FCPA. The FCPA is a US act that applies to all employees, affiliates and subsidiaries involved in potential payments to foreign officials and provide standards of conduct and practices under the anti-bribery and accounting provisions of the FCPA.

For purposes of this policy, a “Foreign Official” includes any officer of employee of a foreign government, agency, or instrumentality of the agency; public international organization; any person acting in an official capacity for or on behalf of any such government or department, agency, or instrumentality; or for or on behalf of any such public international organization; or a foreign political party or official or person acting on behalf of a foreign political party. Foreign Official also includes an employee of an entity that is 100% owned by a government. Foreign Officials may also include employees of an entity where a government holds a controlling interest. The U.S. Government has not specified what level of control creates a state-owned entity. Questions about whether someone is a Foreign Official should be referred to Compliance.

Violations of the FCPA can result in severe civil and criminal penalties for the Company as well as individual employees. Failure to adhere to this policy may result in disciplinary action up to and including termination of employment.

### 4.30.1 Prohibitions:

In general, the FCPA violations of anti-bribery prohibitions involve making use of the mails or any means or instrumentality of interstate commerce:

* Corruptly;
* In furtherance of an offer, payment, promise to pay, or authorization of the payment of any money, or offer, gift, promise to give or authorization of the giving of anything of value to any:
  + Foreign official;
  + Foreign, political party or party official;
  + Candidate for foreign political office; or
  + Person while knowing that all or a portion of such money or thing of value will be offered, given or promised, directly or indirectly, to any foreign official, political party, party official or candidate;
* For the purpose of:
  + Influencing any act or decision of the foreign official, political party, party official or candidate in his or its official capacity;
  + Inducing the foreign official, political party, party official or candidate to do or omit to do an act in violation of his or its lawful duty;
  + Securing any improper advantage;
  + Inducing the foreign official, political party, party official or candidate to use his or its influence with a foreign government or instrumentality to affect or influence any act or decision of such government or instrumentality; or
  + In order to assist in obtaining or retaining business for or with, or directly business to, any person.

The FCPA prohibits employees from presenting an offer, gift, payment, promise of payment, authorization of payment, or any item of value to a Foreign Official with the intent of assisting the Company in obtaining, retaining or directing business to any person. Intent can include those gifts, payments, etc. made with a conscious disregard or deliberate ignorance of their purpose. The FCPA also prohibits any such payments to third parties or intermediaries while knowing that all or a portion of such money or thing of value will be offered, given or promised, directly or indirectly, to any Foreign Official. Intermediaries can include, but are not limited to, joint venture partners or other agents such as consultants, independent service providers and vendors.

Cash payments and political contributions made on behalf of the Company to Foreign Officials, either directly or via a third party, are prohibited. In addition, if Company is deemed an “issuer” under FCPA, Morris Monroe or Laura Hendricks shall be responsible for establishing appropriate accounting and financial policies, procedures and other internal controls to fulfill the accounting provisions of the FCPA. FINRA Regulatory Notice 11-12 has further information.

### 4.30.2 Reporting Violations (Whistleblower)

It’s important for all employees and Associated Persons to participate in the Company’s commitment to comply with FCPA requirements. Violations should be reported to:

* His or her supervisor, or if the supervisor may be involved, to
* Compliance or a senior officer of the Company; or if the Company appears to be involved at a very high level, to
* The SEC.

Company has an anti-retaliation policy for employees and Associated Persons who report potential violations. These persons will not be subject to retaliation by the Company or its employees and should feel free to contact Compliance or Morris Monroe with any concerns about possible violations.

### 4.30.3 Certifications

Currently, there are no employees or Associated Persons who deal with foreign entities, persons, and/or accounts. However, if that changes in the future, these persons may be required to submit annual certification regarding their knowledge of and compliance with the Company’s FCPA policy. Compliance will maintain a list of affected employees and obtain certifications where required by the Company.

## 4.31 Prohibited Acts

Registered Representatives are specifically prohibited by Company policies from the following:

1. In their personal capacity to act independently as an agent in the sale of securities for a client or any individual or firm other than through the Company (without the knowledge and consent of Company).
2. Warrant or guarantee the present or future value or price of any security or that any Company or issuer of securities will meet its objectives or obligations.
3. Agree to repurchase at some future time a security from a client for their own account, or for any other account.
4. Raise money or participate in the raising of money for real estate syndications other than as an agent of the Company.
5. Raise money for charitable or political organizations without first informing the Company.
6. Act as personal custodian or trustee of securities, stock powers, money, or other property belonging to a client without Company authorization.
7. Borrow money or securities from a client without Company approval and within the limitations specified by Company and regulatory rules.
8. Accept gratuities from a client or anyone other than the Company.
9. Arrange for the extension or maintenance of credit to or for any customer.
10. Maintain a joint account in securities with any client or share any benefit with any client resulting from a securities transaction unless with the express written authorization from the Company.
11. Transfer any customer asset to own name or name of member of immediate family.
12. Enter into any business transaction jointly with a client without the specific prior written approval of the Company.
13. Forward or agree to forward confirmations or statements of account other than to the home or business address of the client or without the client authorization.
14. Provide tax advice without disclosing the Company or the Associated Person is not a tax professional; or the practice of law or giving of counsel customarily received from attorneys. All representatives will refrain from distributing any legal forms unless they are stamped "Specimen," or otherwise noted.
15. Distribute unauthorized materials.
16. Distribute any sales material in any state where the Company is not registered as a Broker/ Dealer.
17. Pay an unlicensed person and/or split commissions with an employee of another Broker/Dealer firm without the approval of the operations and compliance officer(s) of the Company and the company whose employee is involved.
18. Use retail communication with the general public without approval in writing by a principal of the Company.
19. Offers and sales of new issues of securities shall be restricted only to individuals who satisfy the investment or suitability requirements which have been established by the issuer of the securities.
20. In connection with the offer and sale of new issues of securities, all oral representations shall be restricted to matters set forth in the offering documents and other approved sales materials supplied to registered representatives of and by the Company.
21. Sign documents on behalf of customers, even when doing so is meant to accommodate a customer's request. Customer signatures must be original or sent electronically by the customer on all documents.
22. Engage in high pressure sales tactics which may include excessive telephone calls, implying that a price may change on a security if the customer doesn't act immediately, or falsely representing that there is a limited supply of a security at a particular price.
23. Make payments to customers of any kind to resolve an error or customer complaint. Errors and complaints must be brought to the attention of the employee's designated supervisor.
24. Use any professional designation without prior approval from Morris Monroe or Compliance. Any designation must be disclosed to the Company prior to use on the applicable form in Exhibit B, Notice Forms.

Associated Persons will certify annually to the above Prohibited Acts and be maintained as part of Company’s records for three years subsequent to termination.

## 4.32 Compliance Meetings

All Associated Persons shall attend mandatory annual compliance meetings to be held by Morris Monroe and/or Compliance. Such meetings will generally be held in person, however, may be conducted via telecommunications or other electronic means. Such compliance meetings shall cover at a minimum, (i) a review of the Company's product mix and method of operation of each Associated Person with an emphasis on compliance issues relating thereto; (ii) a question and answer period in which the Company's associated persons may ask any question he or she may have and receive authoritative guidance concerning compliance issues relating thereto; (iii) a review of regulatory developments, firm policies, and similar information; and recent regulatory developments and or cases (i.e. dealing with insider trading, churning of client accounts, unauthorized trading, private securities transactions) and other recent regulatory developments of interest to the Company. As evidence of attendance of such compliance meetings, records will be maintained by the Company which shall reflect the date and location of the meeting, those in attendance and the subjects discussed.

Makeup sessions shall be conducted by Compliance, Morris Monroe, or the applicable OSJ Supervisor (who has already attended the meeting) by 12/31 of the year of the absence. Due to the time, effort, and expense to conduct the annual compliance meetings, any Associated Person who does not attend the group event will be assessed a charge of $500 to be paid within thirty days or deducted from commissions, unless authorized by Morris Monroe for extenuating circumstances.

## 4.33 Annual Compliance/Regulatory Checklist

The Company will conduct an annual compliance and regulatory survey of its Associated Persons in order to detect such occurrences of outside business activities, gifts, private securities transactions, etc. This will be conducted at or prior to the annual compliance meeting and signed by each Associated Person as evidence of completion. In addition, each checklist will be maintained as part of the Company’s permanent records until three years after the Associated Person has been terminated.

## 4.34 Violations of Procedures

Violation of the Company’s rules and procedures, unless specified otherwise in any section herein, may result in warnings or disciplinary action, including fines, and or termination.

## 4.35 Internal Disciplinary Actions

The Company’s goal in administering discipline is to take measures to maintain the quality of service provided to our customers by encouraging appropriate behavior. The expected result of these measures is the deterrence of inappropriate behavior and, when improper activity occurs, to take corrective action commensurate with the activity. Although it’s impossible to list all circumstances which discipline may be imposed, disciplinary action will be considered when there is either an admitted violation or a determination of an actual or probable violation of Company policy, regulatory rules or regulations, or federal/state laws. It is essential that Compliance be notified in advance of all disciplinary actions in order to analyze for regulatory reporting purposes and recordkeeping. Morris Monroe and/or Compliance may determine or modify the terms of discipline depending on the facts and circumstances of the situation.

### 4.35.1 Types of Discipline

There is a range of possible disciplinary action; the level of discipline will be determined by Compliance. Compliance will corroborate with the individual’s supervisor who will be copied on any communications to the individual regarding the disciplinary action. The more serious the conduct, the more severe the discipline will be. An individual’s prior complaint and disciplinary history will be considered in determining the appropriate level of discipline. The activity’s risk to the Company, injury to customers, and the individual’s cooperation may all be factors (among others) in determining the discipline.

* **Letter of Caution (LOC)**: A LOC is a memorandum that specifies a possible violation and/or serves as a warning for inappropriate behavior. The LOC outlines the expected behavior and the possible consequences of future violations similar in nature. The LOC will require the recipient’s signature certifying his/her receipt of the memorandum and understanding of the matter.
* **Admonishment**: An Admonishment is a memorandum that formally reprimands an individual based on admitted or determined violations. The Admonishment specifies the violation(s) and expected behavior as well as the possible consequences of future violations similar in nature. It may be administered with or without a fine and will require the recipient’s signature acknowledging his/her receipt of the form and understanding of the matter.
* **Fine**: A Fine is a monetary sanction that will usually be attached to either an Admonishment or Suspension of Employment. The Fine may be either non-reportable (amount less than what is required to be reported by an SRO) or reportable (if required to be reported to an SRO). Fines will be withheld from the recipient’s commission or paid by a check or money order. Any amount collected may be donated to a local charity.
* **Suspension of Employment**: An employee or Associated Person may be suspended for violations. Prior to Suspension, the individual will be informed of the violation(s), the expected behavior, and the terms of the Suspension. While under suspension, individual may not (i) have direct or indirect contact with customers; (ii) act or represent as a registered representative; (iii) give investment advice or counsel; (iv) receive compensation; or (v) transact business in any securities account (other than for their own account). The Suspension memorandum will be delivered to the individual and specify the violation(s), expected behavior, and any possible consequences for future violations similar in nature. It may require the recipient’s signature acknowledging his/her receipt of such memorandum and understanding of the matter. Suspensions will be reported by Compliance to any appropriate SRO.
* **Termination**: Termination of employment may be determined for violations of Company policy, regulatory rules or regulations, or federal/state laws. The individual will be informed of the violation and termination of employment. Termination will be reported by Compliance to the appropriate SRO(s).
* **Additional Action**: Individuals may be subject to Heightened Supervision or may be subject to additional education, re-testing for licensing, title downgrading, or other remedial actions deemed appropriate by Compliance or Morris Monroe.

## 4.36 Termination Procedures

Upon termination of any Associated Person, it shall be the responsibility of Morris Monroe, or his designee, to promptly file a Form U5 with FINRA and mail a copy of said Form U5 to the terminated employee within ten (10) days of termination. The Form U5 shall become part of the employee's permanent file.

Upon a request for termination/registration, the following procedures will be followed:

1. Promptly file the Form U-5 with the CRD;
2. Forward a copy to the Associated Person within 10 days of filing;
3. Place a copy of the form in said Associated Person’s file.
4. Pull active file to Terminated Associated Person’s file.
5. Maintain the file for three years after termination.
6. Terminate any logins, user access to Company and/or client related information.
7. Retrieve any Company related documents, keys, property, etc.
8. Promptly reassign any accounts, change the Agent on the account, and notify the applicable customers of the change and how the account will continue to be serviced and/or their option to transfer their account to another firm.

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

If asked by a customer, the customer may be advised he/she may be serviced by the newly assigned RR or an alternative RR or may transfer the account to another firm. If the departing RR consents, reasonable contact information may be provided in response to inquiries (phone number, e-mail or mailing address).

## 4.37 Continuing Education

In accordance with FINRA rules, all Covered Associated Persons, as that term is defined by the Rule, shall participate in Continuing Education, the frequency and complexity of which shall be determined based upon the following factors:

1. The Covered Person's length of time in the industry;

2. The existence and nature of customer complaints against the Covered Person;

3. The existence and nature of any regulatory actions against the Covered Person;

4. The existence and nature of any regulatory actions against the Company and or management thereof; and

5. Changes in business activities for the Covered Person (including but not limited to additions of new products) which have taken place within the previous twelve-month period, or which are anticipated to take place within the following twelve-month period.

The Continuing Education Program shall consist of two elements:

1. The **Regulatory Element** **-** which shall be administered and monitored by FINRA; and
2. The **Firm Element -** which shall be administered and monitored by the Company. Morris Monroe, or his Compliance Department designee, will have responsibility for ensuring both programs are administered, and the proper records are maintained as evidence of participation and/or completion. All registered persons are required to complete continuing education administered by the Company (“Covered Persons”).

Both Elements must be completed by December 31 annually. Failure to complete CE requirements by that time will result in suspension of registration.

### Two-Year Qualification Period And Partial Terminations

Effective January 1, 2023, the two-year qualification period will apply to all partial terminations, with the exception of a partial termination of a registration category that is a subset of a broader registration category for which an individual remains registered or otherwise qualified under the two-year qualification period.

### 4.37.1 Regulatory Element

The Regulatory Element requires uniform periodic training that focuses on compliance, regulatory, ethical, and sales practice standards. Its content is derived from rules and regulations as well as standards and practices widely accepted within the industry.

The training is a computer-based program which must be completed annually by December 31 (beginning January 1, 2023). The Company and, in turn, the subject person will be informed by FINRA/CRD as to who and when each person will be required to participate in the Computer Based Training Session administered by FINRA. It shall be the responsibility of Morris Monroe or his designee to notify each covered person as to when their window begins and the end-of-year completion requirement for the Regulatory Element.

Further to the extent any covered individual fails to complete the Regulatory Element during the time period required, the Company shall notify the individual that he or she is internally suspended from conducting a securities business until such time as he/she has successfully completed the Regulatory Element. Further, it shall be the responsibility of Morris Monroe to notify an individual of the effective date of his/her internal suspension, to obtain the individual's acknowledgment of his/her suspension, as well as notification of the withholding of commissions until such time as he/she has complied with the Regulatory Element. Morris Monroe or his designee shall monitor the activities of said individual in order to prevent that person from conducting a securities business until such time as he/she has successfully completed the Regulatory Element. Finally, it shall be the responsibility of Laura Hendricks to maintain a copy of all written notifications and acknowledgments regarding any internal suspensions, withholding of commissions and or notices concerning the Regulatory Element in the individual's personnel file with the Company.

### 4.37.2 Firm Element

With respect to the Firm Element, the Company shall plan, develop, establish and implement a Continuing Education Program, under the direct supervision of Morris Monroe or Compliance, for all registered Associated Persons of the Company. Each year, both a needs analysis and written plan will be prepared for the following year’s implementation. Compliance shall be responsible for maintaining copies of all work papers evidencing the steps taken by the Company to review and analyze its business activities and needs in order to plan for the coming year's Continuing Education Program curriculum.

Annually, both the Regulatory and Firm elements of the Company's Continuing Education Training Plan shall be reviewed, by Morris Monroe or Compliance in conjunction with progress reports produced in the CE Regulatory Element Reports in the FINRA Firm Gateway and evaluation feedback forms obtained from Firm Element participants to determine the program's adequacy and any modifications and or enhancements required thereto. As part of the Company's administration of the Continuing Education Program, Morris Monroe or Compliance shall review Continuing Education Materials available through third party vendors for use with its registered Associated Persons, third-party courses completed by Associated Persons other than those assigned by the Company that Associated Persons may use to fulfill any Company requirements (i.e. anti-money laundering, cybersecurity, etc.) and/or may develop internal study materials, and or memorandums as part of its overall method of delivery of target information to be covered by registered Associated Persons as part of the Firm Element.

Upon completion of the Firm Element portion of the Continuing Education Program, each individual will be given a Continuing Education Program Feedback and Evaluation Form to complete and return. Said form shall be retained in the Company's records for use in evaluating the Company's Firm Element program.

Morris Monroe or Compliance shall also review annually the Company's business and operating history in determining the Company's objectives and goals for the following year's Continuing Education Program. At a minimum, the objectives of the Company's Continuing Education Program shall be to:

1. Educate and or refresh all Covered Persons with issues regarding customer best interest, handling of customer accounts, handling of communications with the public, handling of customer complaints and ethics training.

2. Educate all Covered Persons with respect to the nature of the various products which the Company offers its customers, and new products which the Company may make available to its customers from time to time.

3. Educate and or refresh all Covered Persons with respect to rules and regulations of the industry in which we operate, and actions which result in frequent violations of the rules and regulations of our industry. As part of the annual review and planning for the forthcoming year's Continuing Education Program, the Company shall review and affirm and or establish new objectives as a result of an analysis of key operational and structural factors directly related to the Company. Pertinent factors of consideration may include the following:

A. An analysis of the Company's Business profile and training needs.

B. Internal Factors gathered through a polling of the priorities.

C. External Factors should also be considered. These factors may include:

1. Review of previous regulatory examinations and related findings.

2. Review of customer complaints, if any, received by the Company.

3. Review of recent Rule adoptions, changes and proposed rule changes.

4. Review of formal disciplinary actions taken against the Company, its officers, directors, or control persons, if any.

D. Special factors of concern to the Company may be gathered and will be a consideration in the Company's training plan.

In establishing the Firm Element of the Company's Continuing Education Program, the Company shall review third party vendor course materials which may be made available to Covered Persons, including but not limited to written, audio, video, and or self- study materials, outside instructors, as well as computerized courseware. Tracking and management reports shall be maintained which shall provide Senior Management with information showing each Covered Person's curriculum and progress through the training program. Laura Hendricks shall be responsible for maintaining copies of the any applicable Tracking and Management Reports as part of each Covered Person's personnel file for the Company, in accordance with SEC Rule 17a-3 and 17a-4.

The Company's Firm Element portion of the Continuing Education Program shall provide for proof of mastery as evidence of completion by a Covered Person.

The Company shall review various course materials available through third party vendors, which may be supplemented from time to time with written materials prepared by the Company, to provide each representative with an individualized curriculum of study, formulated based upon the following factors:

1. The Covered Person's length of time in the industry;

2. The existence and nature of customer complaints against the Covered Person;

3. The existence and nature of any regulatory actions against the Covered Person;

4. The existence and nature of any regulatory actions against the Company and or management thereof; and

5. Changes in business activities for the Covered Person (including but not limited to additions of new products) which have taken place within the previous twelve-month period, or which are anticipated to take place within the following twelve-month period.

The Company shall review various courses prior to inclusion in the Company's Firm Element Continuing Education Program curriculum. Each course shall be reviewed to ensure that the courses satisfy the objectives determined by the Company to be the highest priority for study the coming year. Only pre-mastered items would be excluded from a Covered Person's curriculum.

* Any subjects mandated by the Company shall be automatically included in every Covered Person’s curriculum without pre-testing.
* Any areas of study mandated by the SRO's shall be automatically included in every Covered Person's curriculum.

To the extent the Company utilizes computer-based training courses as part of its Firm Element; the courses shall be interactive lessons that teach to objectives. It shall be the responsibility of Compliance to maintain copies of the course materials utilized as part of the Firm Element portion of the Company's Continuing Education Program, in accordance with SEC Rules 17a-3 and 17a-4.

### 4.37.3 Inactive CE Status

Any Covered Person who does not complete applicable CE during the required time period will be placed on Inactive CE status and will not be allowed to conduct securities transactions nor be paid any commissions until such time the CE requirement is satisfied.

Morris Monroe and Laura Hendricks will be designated on the Firm Contact questionnaire as the persons to receive CRD Regulatory Element e-mail notifications. Laura Hendricks will review the Firm Contact questionnaire within 17 business days of the end of each calendar quarter to ensure its accuracy and make any necessary updates. Evidence of said review will be maintained in a log.

### 4.37.4 Maintaining Terminated Person’s Registration

Individuals who terminate their RR or principal registration categories may maintain their qualification(s) for five years following termination of terminated registration categories subject to the following conditions:

* The person was registered for at least one year immediately preceding termination of the registration category, and the person was not subject to a statutory disqualification and is not during the term of the Maintaining Qualifications Program (MQP).
* The person must satisfy CE requirements as outlined in FINRA Rule 1240(c).

## 4.38 Reporting Possible Law or Rule Violations

It is the intent of the Company to adhere to all laws and regulations that apply to the organization and achieve the goal of legal compliance. The support of all Associated Persons is necessary to achieve compliance.

### 4.38.1 Reporting

Associated Persons should report possible crimes or rule violations involving the Company, a department, or an employee(s) as well as outside vendors or service providers. Reporting may be made to any or all of the following, keeping in mind where the Associated Person’s supervisor may be involved with the possible wrongdoing.

1. Immediate supervisor
2. Morris Monroe
3. Laura Hendricks
4. Portia Brown (legal counsel)

### 4.38.2 Confidentiality of Reporting

All reports, as well as the Associated Person’s identity, will be kept confidential other than to those who need to know such as the compliance officer, counsel, or someone else conducting an investigation. Any potential wrongdoer mentioned in the report will not be provided the name of the person who filed a report.

### 4.38.3 Investigation

A supervisor or other manager who receives a report of possible violations should immediately refer to Morris Monroe or Laura Hendricks who will be responsible for conducting an investigation and overseeing the review until its conclusion, including potential reporting to any regulator. If either Morris Monroe or Laura Hendricks are involved in the potential wrongdoing, either the supervisor it was reported to or Portia Brown will be responsible for conducting the investigation. The reported wrongdoing will be investigated promptly and determine what action is required. Outside counsel may also be engaged as part of the investigation. The reporting Associated Person may be advised of the conclusion and resolution of the investigation.

### 4.38.4 Anti-Retaliation

Company will not retaliate against an Associated Person who reports some practice of the Company, a department, another Associated Person or other individual(s) of another or entity the Company has a business relationship with that may represent a rule or law violation. The Company will not retaliate against such Associated Persons who disclose or threaten to disclose any potential wrongdoing activity to the Company or regulator.

### **4.38.5 Federal Whistleblower Laws and Rules**

The SEC Act includes Sec 21F and has adopted Rule 21F that provides for the reporting of possible violation of federal securities laws and potential rewards for information that leads to successful enforcement of a covered judicial or administrative action where monetary sanctions equal $1,000,000 or more. The Sarbanes-Oxley Act of 2002 (which governs public companies) and the Foreign Corrupt Practices Act (FCPA) also have whistleblower provisions.

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# 5. CUSTOMER ACCOUNTS

## 5.1 Introduction

The Company is an introducing broker/dealer and as such, utilizes the clearing firm, Hilltop Securities. (“HTS”) on a fully disclosed basis. Accordingly, the Company has on file a clearing agreement with HTS. As such, each customer who opens an account through HTS will be notified in writing upon the opening of the account of the existence of the clearing agreement between the Company and the clearing firm. This is accomplished through the HTS Customer Information Brochure given to new HTS customers.

This chapter outlines requirements when opening and maintaining accounts for customers. References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

## 5.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisor * Compliance Review |
| **Statutes** | * SEC Rule 17a-3(a)(17) * US Patriot Act – Identity, Private Banking, Foreign Corresp. Accts * FINRA Rules 2310 and 3010(c) * '34 Act Rule 17a-3(17)(i)(A); FINRA Rules 2310(b) and 4512 – Account Information and Approval * FINRA Rules 3010(c)(1)(A) and (B) and 3010(c)(3)(C) * FINRA Rule 2262 – Control Relationship * FINRA Rule 2264 – Margin Disclosure * FINRA Rule 2266 – SIPC Disclosure * FINRA Rule 2267 – Investor Education and Protection * FINRA Rule 2269 – Participation or Interest in Primary or Secondary Distn * FINRA Rule 3110(f) & 2268 – Predispute Arbitration Agreement * '34 Act Rule 17a-3(a)(17); FINRA Rule 4515 – Updating Acct Info/ Periodic Verification, FINRA Employees, Accounts requiring notification to Employer * FINRA Rule 4514 – Authorization for Negotiable Instruments drawn from Customer’s Account * FINRA Rule 4515 – Changes in Account Name or Designation * Bank Secrecy Act and SEC Rule 17A-8 * FINRA Rule 4513 and 4530 – Complaints * FINRA Rule 2090 and 2111 – Know your customer and Suitability (eff 7/9/12) * DOL Fiduciary Standards |
| **Frequency** | * When accounts are opened * Account reviews * 17A3 – 30 days within acct opening; every 36 months; upon change in acct notification * When LOAs or checks are requested * Training annually and as needed * When Customer Complaints are received * When transaction and other reports are reviewed |
| **Actions** | Identity:   * Before approving an account, determine that customer identification (ID) verification information is included with the new account application and meets Company's requirements; * For non-documentary verification, check the information included with the new account application for completeness and consistency with other customer-provided information (name, address, phone number, taxpayer ID number, *etc.*) * Taxpayer ID * For unacceptable verification information (incomplete, inconsistent), return the application to the RR for further information or disapprove the account * Obtain Beneficial Ownership information, if applicable.   Best Interest (Suitability):   * New Acct Form, Account Documents * Obtain Institutional Suitability Certificates from institutional customers (when absent, flag account noting the form is deficient). * Transaction and other reports reviewed (excessive trading, concentration, etc.). * Where investment profile in incomplete, contact the RR to ascertain further information. * Modify or restrict future transactions if appropriate. * Delivery of Form CRS   17A3/Verification:   * Letter sent to customers * Log in WinOps * Compliance Meetings * Ongoing – other actions   Disclosures   * Initial applicable disclosures and acknowledgements * Any annual disclosures * Website disclosures   Customer funds and securities   * When a customer requests funds or securities to be disbursed or transmitted * When a customer submits a LOA   Complaints:   * File 4530 electronic report within 30 calendar days of knowledge * File electronically the quarterly statistical report by the 15th of the month following calendar quarter * Any follow up to complaint   Retirement Accounts   * Identify retirement accounts subject to fiduciary requirements * Make determinations on complying with fiduciary requirements which may include:   + Review existing compensation packages and arrangements   + Identify available exemptions and compliance procedures (BICs, principal transactions, *etc.*)   + Changing compensation to level fees   + When level fee fiduciary status is enacted, review accounts to confirm ongoing level fees are not disadvantageous to customers when fees are disproportionate to services provided   + Review of mutual funds offered sold and classes appropriate for accounts   + Identify conflicts of interest and take appropriate action which may include:     1. Disclosures to customers (conflicts, cost of advice, *etc.*)     2. Adjustment of compensation arrangements   + Written agreements with customers via BICs * Provide notification to existing customers regarding fiduciary and best interests obligations (available through January 1, 2018) * Determine what action will be taken for those accounts rejecting the amended contract language, which may include closing the account * When acting as a level fee fiduciary, make disclosures to customers * Communicate requirements to sales personnel * Review retirement accounts for compliance with requirements (compensation, contracts, *etc.*) * Monitor compensation systems to confirm they are not disincentives to making recommendations in the customer's best interest * Train RRs regarding fiduciary responsibilities * Post required information to web site   Senior Investors   * Requests for temporary holds * Any indications of financial exploitation and/or escalation issues * Training |
| **Records** | * New account records * Supervisor's approval * Any applicable Compliance logs, notes in WinOps * Review log in WinOps * LOAs, checks disbursed * 17A3s returned, Log in WinOps * Compliance meeting records * Customer Compliant/ 4530 filing in CRD, related documentation * Disclosure records * Reviewed transaction and other reports * Institutional Suitability Certificates * Retirement Accounts:   + Identification of retirement accounts   + Product reviews   + Reviews of compensation   + Notifications to existing retirement account customers through January 1, 2018   + BICs   + Form CRS records * Records of temporary holds, suspected financial exploitation, any escalation issues. |

## 5.3 New Accounts

All new accounts opened with the Company will require the Company's acceptance of such account. Acceptance will be acknowledged by the designated person's signing of all subscription agreements and/or New Account Forms. Customer Accounts originating in the home office shall be accepted by Morris Monroe or other principal(s) on behalf of the Company and the designated principal for any OSJ. Morris Monroe accounts will be further approved by Laura Hendricks, evidenced in a field in WinOps (can be post account opening but with an effort made to do so within 30 days of being entered into WinOps).

Company will provide required written disclosures to each new customer prior to or at the time a new account is opened. In addition, customers will be asked to acknowledge, in writing, their receipt and understanding of the required disclosures.

### Rule 4512 - Account Information/ Customer Due Diligence

Company shall obtain/maintain the following information for each account:

* Customer’s name and residence address;
* Whether customer is of legal age;
* Name of RR responsible for the account;
* Signature (or electronic signature) of customer(s) and of principal denoting acceptance and approval of account;
* If the customer is a non-natural entity, the names of any person(s) authorized to transact business on behalf of the entity;
* Tax ID number (further information below under Section 5.5);
* Occupation, and name and address of employer;
* Whether the accountholder(s) is/are an associated person with a member firm; and
* Other factors noted in Section 5.11 and 5.25 (Trusted Contact).
* Legal Entities and Beneficial Owners – including information about the following
  + Any individual who (directly or indirectly) owns 25% or more of the equity of a legal entity customer; a single individual with ability to control, manage, or direct a legal entity (*e.g.,* CEO, CFO), or anyone else who regularly performs these functions. Does not include a nominee or straw man.
  + Beneficial owner identification and certification (using FinCEN’s or custodian’s certification form).
  + The nature and purpose of customer relationships.
  + Information sufficient at the time of account opening so customer activity may be assessed for SAR requirements (may include type of customer requesting services; type of account being opened; services or products being used).
  + Beneficial owners are subject to AML requirements including OFAC reviews.
  + Ongoing monitoring" on a risk basis to maintain and update customer information.
  + Information will be retained for five years from the date of account closing.
  + **Ownership and control prongs** - The CDD rule utilizes a two-pronged approach to defining a beneficial owner - an ownership prong and a control prong. Under the ownership prong, a beneficial owner is defined as each individual, if any, who, directly or indirectly, owns 25 percent or more of the equity interests of a legal entity customer. However, the rule recognizes that there may be instances when no single individual owns 25 percent or more of the equity interest of the legal entity; in such instances, the Company is still required to collect the required information for one individual who controls, manages, or directs the legal entity customer. Under the control prong, a beneficial owner is defined as a single individual with significant responsibility to control, manage or direct a legal entity customer, including an executive officer or senior manager (e.g., a chief executive officer, chief financial officer, chief operating officer, managing member, general partner, president, vice president or treasurer) or any other individual who regularly performs similar functions. The ownership and control prongs, although related, are independent requirements. Thus, satisfaction of, or exclusion from, regulatory obligations under one prong does not mean the Company's obligations under the other prong are also satisfied or excluded.
* **Customer Signatures**: Customers are required to sign multiple documents when opening an account; sometimes additional or new forms are required later after the account is opened. All signatures must be original by the customer. Associated Persons (AP) must not agree to sign on the customer's behalf when requested. Engaging in forgery and falsification will subject the AP to disciplinary action which may include termination. Such activity is a violation of regulatory rules and may also be a criminal offense. In addition to manual signatures, digital signatures also must be original by the customer. If an AP is asked to sign a document on behalf of a customer, that AP may not sign for a customer and must report the incident to their supervisor.

Processing new accounts:

1. Review new account information for **completeness**.
2. Make sure principal has signed new account form, together with and after execution by responsible registered representative.
3. Search OFAC list when opening the account and maintain copy of report.
4. Obtain copy of driver’s license for all account holders.
5. Input information to clearing firm, if applicable.
6. Beginning in September 2018, Company will have the option for customers of HTS new accounts to sign the HTS new account application electronically. eSignatures and their processing will require extra diligence to ensure it is the customer signing and/or comparing such e-signature to other Company forms if applicable.
7. Email one copy to clearing firm or mail, forward copy to customer file.
8. Before filing in new customer file, check HTS screen same or next day to make sure account is set up properly.
9. Scan documents into WinOps.
10. File any copies or original documents at respective OSJ branch.
11. Send copy of new account information to customer within 30 days of opening account and every three years thereafter (SEC 17a-3 letter).
12. Record any checks received in the Send/Receive Log.
13. Forward any applicable applications and checks to appropriate vendor (if check received, forward by noon the following day (unless a direct purchase mutual fund or variable annuity which allows up to seven days).

14. Enter any customer information in the CRM database.

### 5.3.2 Customer Account Requests

1. Any change to a customer account must be in writing from the client or verbal if from authorized person.
2. Address changes must be kept in customer file with date of change or noted in WinOps or the CRM. The Change of Address letter must be sent to customer’s old address (evidence of verification sent is maintained in the WinOps database or if sent by Custodian, in an accessible record). Alternatively, if custodian requires their proprietary form to be completed and the form is sent to the contact information on record, customer signature(s) match previous documents, and the date is noted on the form, no verification needs to be sent.
3. Pursuant to Rule 4515, Account Registration Change requests must be approved by a principal prior to any new transactions and document the essential facts the principal relied on in approving such change, if applicable. This can be evidenced either on a new account form, LOA, or an order ticket. Any copies of registration change requests will be maintained in WinOps and/or client filing. FINRA Rule 4515.01 provides that when accepting orders from investment advisers, the Company may allow such investment advisers to make allocations on their orders for customers on whose behalf the investment advisers submit the orders, as long as the Company receives specific account designations or customer names from such investment advisers by noon of the *next* business day *following* the trading session. This rule only applies when there is more than one customer for any particular order. Lastly, FINRA Rule 4515.01 clarifies that Company may not knowingly facilitate the allocation of orders from investment advisers in a manner other than in compliance with both (i) the investment adviser’s intent at the time of trade execution to allocate shares on a percentage basis to the participating accounts and (ii) the investment adviser’s fiduciary duty with respect to allocations for such participating accounts, including but not limited to allocations based on the performance of a transaction between the time of execution and the time of allocation. The “knowingly facilitate” standard means that Company may not act recklessly or with knowledge in facilitating an investment adviser’s breach of its fiduciary duty to its clients, and compliance with that standard turns on the facts and circumstances.
4. Check requests must be processed the same day if before cutoff time. Check the account to make sure there is not withholding, and funds are available (notify the client and RR if a position must be sold for further instructions to generate the necessary funds). Notify registered representative if there is paper work needed. No check can be disbursed until the paperwork is in order. If request is received electronically, a verbal confirmation must be obtained from the accountholder and documented with the request or check PRIOR to sending.

### 5.3.3. Regulation Best Interest

Regulation BI applies to new accounts in two keyways:

* New customers must be provided with the Form CRS Relationship Summary at the time the account is opened.
* Recommendations to open accounts are subject to Regulation BI requirements and require provision of the Form.

The standards for making account recommendations in the customer's best interest are included in Section 5.7 *REGULATION BEST INTEREST (REG BI)*.

### 5.3.4 AML Procedures for New Accounts

See procedures under Section 7 of these Written Supervisory Procedures

## 5.4 FINRA Rule 3250 - Designation of Accounts

Company shall not carry an account on its books in the name of a person other than that of the customer, except that an account may be designated by a number or symbol, provided Company has on file a written statement signed by the customer attesting the ownership of such account.

## 5.5 Bank Secrecy Act

With respect to each new account established by the Company, by persons residing or doing business in the United States, or a citizen of the United States, the Company shall within 30 days from the date such account is opened, secure and maintain a record of the taxpayer's identification number of the person on whose behalf the account is established; or in the case of an account of one or more individuals, the Company shall secure and maintain a record of the social security number of an individual having a financial interest in the subject account.

In the event that the Company has been unable to secure the identification required within the 30-day period specified, it will nevertheless not be deemed to be in violation of the Bank Secrecy Act or SEC Rule 17a-8, if:

(1) The Company has made a reasonable effort to secure such identification; and

(2) The Company maintains a list containing the names, addresses, and account numbers of those persons from whom it has been unable to secure such identification, and makes the names, addresses, and account numbers of those persons available to the proper authorities as may be requested.

The Company's personnel must ensure that a W-9 is obtained for each account established on behalf of a customer. If a W-9 is not obtained, the appropriate backup withholding will be applied by Hilltop Securities, Inc. and a list of all outstanding W-9's shall be maintained by the Company as a part of its books and records.

Where a person is a nonresident alien, the Company shall also record the person's passport number or description of other government document(s) used to verify the individual's identity.

The 30-day period provided for in the Bank Secrecy Act shall be extended where the person establishing the account has applied for a taxpayer identification or social security number on Form S-4 or S-5, until such time as the person maintaining the account has had a reasonable opportunity to secure such number and furnish it to the Company.

A taxpayer identification number for a deposit or share account required under the above paragraph need not be secured in the following instances:

(1) Accounts for public funds opened by agencies and instrumentalities of Federal, State, local or foreign governments;

(2) Accounts for aliens who are:

(a) Ambassadors, ministers, career diplomatic or consular office, or

(b) Naval, military or other attachés of foreign embassies, and legations, and for the members of their immediate families.

(3) Accounts for aliens who are accredited representatives to international organizations which are entitled to enjoy privileges, exemption, and immunities as an international organization under the International Organizations Immunities Act of December 29, 1945 (22 USC Sec. 288), and for the members of their immediate families.

Company will, in addition, retain as required, either the original, a copy, or other reproduction of each of the following:

(1) Each document granting signature or trading authority over each customer's account;

(2) Each record described in section 240.17a-3(a)(1), (2), (3), (5), (6), (7), (8), and (9) of Title 17, Code of Federal Regulations;

(3) A record of each remittance or transfer of funds, or of currency, checks or monetary instruments, investment securities, or credit, of more than $3,000 to a person, account, or place, outside of the United States (maintained by HTS).

(4) A record of each receipt of currency, other monetary instruments, checks or investment securities and of each transfer of funds or credit, of more than $3,000 received on any one occasion directly and not through a domestic financial institution, from any person, account or place outside the United States (maintained by HTS).

It shall be the responsibility of Morris Monroe or Compliance to review the Company's books and records for compliance with the requirements of the Bank Secrecy Act.

**The Joint and Travel Rules**:

The joint rule requires that if the Company is involved in a wire transfer greater than $3,000 the Company must collect and retain certain information regarding the transfer depending on its role in the transfer and the relationship to the parties. The Company will also verify the identity of transmitters and recipients that are not established customers.

The travel rule requires intermediary parties to wire transfers greater than $3,000 to include all information received about such wire transfers in their re-transmittal of the wire order.

The joint rule requires that when functioning as the transmittor’s financial institution for an established customer, the Company must be able to retrieve the information by account number and account name.

The following transmittals of funds are not subject to the requirements of the joint rule: Any transfer of less than $3,000; transmittals of funds where the transmittor and the recipient are any of the following: a bank, a wholly owned domestic subsidiary of a bank charted in the US; a broker dealer in securities; a wholly owned domestic subsidiary of a broker dealer in securities: the United States; a state or local government or a federal, state or local government agency or instrumentality.

The Company will maintain a record of all wire transfers over $3,000 received and delivered (maintained by HTS). A copy of the transmittal may also be kept in the customer’s file.

## 5.6 Account and Activity Reviews

All new accounts are both reviewed by the designated principal as well as Laura Hendricks and documented in WinOps the date of the review.

Customer Accounts will be reviewed on an ongoing basis by Morris Monroe or his designee, to assist in detecting and preventing violations of, and achieving compliance with applicable laws, regulations and rules. Such review will be conducted on a random basis for accounts by reviewing the account via DSTVision, product vendor websites and or HTS back office system and trading logs. Such review will be maintained by Morris Monroe or Compliance with the date and the initials of the person who conducted the review.

Margin Accounts will be maintained by the Company under the supervision of Morris Monroe or his designee. The Company will follow the margin requirements of its clearing broker, Hilltop Securities, Inc. Morris Monroe or his back-office designees will review Reg T call reports and House call reports. Each designated RR and respective principal will be responsible for contacting the customer to meet all calls. The call reports can be faxed or emailed directly to the representative of the account. Notes reflecting the follow-up to the notice will be maintained in the CRM software system or WinOps. Each respective principal will be responsible for notifying the clearing broker of any Reg T extensions.

Accounts that are concentrated in certain security positions may increase risk for the customer, particularly if the security is purchased on margin. RRs must consider the following factors for concentrated customer accounts:

* Is the concentrated position in a margin account?
* Do trading characteristics (thinly traded, limited markets) create added risk to the customer?
* If the concentrated position is higher risk, is the customer aware of this risk and suitable for such a position or positions?
* Should the concentrated position be mitigated by reducing margin exposure or selling off some of the position?

Reviews will also be conducted to detect any customer residing in a state where the Company is not registered. In addition, a customer may notify Company they are moving to a state where Company is not registered. In the event one is discovered, the account may be frozen from further activity while it can be determined if the Company will pursue licensing in such state. If not, a letter from the Compliance Department will be forwarded to the customer with instructions that the account is now deemed restricted and it will assist them in transferring the account. Code accounts in HTS or applicable site and WinOps as CLOSED or HOLD until account is transferred, or Company is registered.

Pursuant to **SEC Rule 17a-4(b)(6)**, the Company will maintain records of any guarantees of accounts and any powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation.

## 5.7 Regulation Best Interest – Reg BI

The SEC adopted Regulation Best Interest (with a compliance effective date of **June 30, 2020**), which establishes a new standard of conduct under the Securities Exchange Act of 1934 (“Exchange Act”) for broker-dealers and natural persons who are associated persons of a broker-dealer (“associated persons”) when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer.

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

This ***general obligation*** is satisfied only if you comply with four specified ***component obligations*:**

1. ***Disclosure Obligation*:** provide certain required disclosure before or at the time of the recommendation, about the recommendation and the relationship between the Company and its retail customer. This would include both a Form CRS that explains the capacity in which the Company and Associated Person will be acting for the account when it is opened and further, any specific product disclosure forms that explain applicable fees and other pertinent information;
2. ***Care Obligation*:** exercise reasonable diligence, care, and skill in making the recommendation;
3. ***Conflict of Interest Obligation***: establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest; and
4. ***Compliance Obligation*:** establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation Best Interest.

### 5.7.1 Definitions

**Accounts**: Recommendations include account types generally (e.g., to open an IRA or other brokerage account), as well as recommendations to roll over or transfer assets from one type of account to another (e.g., a workplace retirement plan account to an IRA).

**Affiliate**: Any persons directly or indirectly controlling or controlled by Company or under common control with Company.

**Best Interest**: The term "best interest" is explained through SEC guidance and interpretations and is not expressly defined. Whether a broker-dealer has acted in the retail customer's best interest in compliance with Regulation BI will turn on an objective assessment of the facts and circumstances of how the specific components of Regulation BI - including its Disclosure, Care, Conflict of Interest, and Compliance Obligations - are satisfied at the time that the recommendation is made (and not in hindsight).

**Conflict of Interest**: A conflict of interest is an interest that might incline a broker-dealer or RR, consciously or unconsciously, to make a recommendation that is not disinterested.

**Customer Relationship Summary**: A written disclosure statement (Form CRS) that must be provided to retail investors when a recommendation is made (as defined in Reg BI).

**Dual Registrant**: A firm that is dually registered as a broker-dealer under section 15 of the Exchange Act and an investment adviser under section 203 of the Advisers Act and offers services to retail investors as both a broker-dealer and an investment adviser. There are exceptions; for example, if a BD dually registered offers investment advisory services to retail investors, but offers brokerage services only to institutional investors, the BD is not a dual registrant for purposes of Form CRS. In the case of Company, it has an affiliated investment advisor company and therefore chooses to publish one Form CRS.

**Full and Fair**: Sufficient information to enable a retail customer to make an informed decision with regard to a recommendation.

**Legal Representative**: “Legal representative” includes the non-professional legal representatives of such a natural person, e.g., a non-professional trustee that represents the assets of a natural person. Reg BI would not apply when the legal representative is acting in a professional capacity as a regulated financial services industry professional retained to exercise independent professional judgment. Therefore, recommendations to registered IAs and BDs or corporate fiduciaries would not trigger Reg BI. On the other hand, recommendations to non-professional trustees, executors, conservators and persons holding power of attorney that represent natural persons are covered.

**Personal, Family, or Household Purposes**: The phrase “primarily for personal, family, or household purposes” covers any recommendation to a natural person for his or her account, other than recommendations to a natural person seeking these services for commercial or business purposes. Reg BI would not cover, for example, an employee seeking services for an employer or an individual seeking services for a small business or on behalf of another non-natural person entity, such as a charitable trust.

**Receives and Uses**: The term “use” means when, as a result of the recommendation:

* The retail customer opens a brokerage account with the Company, regardless of whether the Company receives compensation;
* The retail customer has an existing account with the Company and receives a recommendation from the Company, regardless of whether they receive or will receive compensation, directly or indirectly, as a result of the recommendation; or
* The Company receives or will receive compensation, directly or indirectly, as a result of that recommendation, even if that retail customer does not have an account at the firm.

**Recommendation**: whether a recommendation has been made is not susceptible to a bright line definition. Factors considered in determining whether a recommendation has taken place include whether the communication “reasonably could be viewed as a ‘call to action’” and “reasonably would influence an investor to trade a particular security or group of securities.” The more individually tailored the communication to a specific customer or targeted group of customers about a security or group of securities, the greater the likelihood that the communication may be viewed as a “recommendation.”

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

**Retail Customer**: A “retail customer” as a natural person, or the legal representative of such person, who: (a) receives a recommendation for any securities transaction or investment strategy from a BD or AP; and (b) uses the recommendation primarily for personal, family or household purposes.

### 5.7.2 Disclosure Obligation

The obligation to provide full and fair disclosure should give sufficient information to enable a retail investor to make an informed decision with regard to a recommendation.

The disclosure obligation requires a BD or RR, prior to or at the time of the recommendation, to provide the retail customer, in writing, full and fair disclosure of:

* All material facts relating to the scope and terms of the relationship with the retail customer, including:
  + That the BD or associated person is acting as a BD or an associated person with respect to the recommendation;
  + The material fees and costs that apply to the retail customer's transactions, holdings, and accounts;
  + The type and scope of services provided to the retail customer, including any material limitations on the securities or investment strategies involving securities that may be recommended to the retail customer; and
  + Material facts relating to conflicts of interest that are associated with the recommendation. "Material facts" are facts a retail customer would consider important in making an investment decision. For example, material facts relating to conflicts of interest including, but not limited to, how RRs are compensated and the benefits to a BD from recommending a proprietary product.
* Other material facts relating to the scope and terms of the relationship with the retail customer which include:
  + The general basis for a recommendation (*i.e.,* what might commonly be described as investment approach, philosophy, or strategy); and
  + Risks associated with recommendations in standardized terms.
* If necessary, other material facts relating to the scope and terms of the relationship.

Disclosures are provided in a variety of ways, including (but not necessarily limited to) the following:

* Electronic mailings to those who have consented to receive electronic delivery
* Form CRS Relationship Summary
* Account opening documents and account agreements
* Company's website

While disclosures must be in writing, in certain circumstances oral disclosures (no later than the time of the transaction) to supplement facts not reasonably known at the time written disclosure is made.

### 5.7.3 Care Obligation

The care obligation is broader than the existing suitability standard because it: (1) explicitly requires that the recommendation be in the customer's best interest and that the Company and RRs do not place their interests ahead of the customer; (2) explicitly requires that cost be a consideration; (3) applies the quantitative suitability requirement (recommending a series of transactions, avoiding excessive activity); and (4) requires the Company and RRs to consider "reasonably available alternatives" as part of having a "reasonable basis to believe" that the recommendation is in the best interests of the customer.

The RR must exercise reasonable diligence, care, and skill to:

* understand the risks, rewards, and costs associated with the recommendation;
* have a reasonable basis to believe the recommendation is in the customer's best interest; and
* have a reasonable basis to believe that recommended transactions are in the customer's best interest based on the customer's investment profile and doesn't place the interests of the Company ahead of the customer. This includes avoiding transactions that are excessive.

In particular, Company and RRs must understand complex products, and recommendations of complex investments should be documented, particularly where a recommendation may seem inconsistent with a retail customer's objectives on its face. The care obligation applies to a series of recommended transactions (quantitative suitability).

#### 5.7.3.1 Factors to Consider

When making recommendations, the following non-exclusive list of factors (depending on the particular product or strategy recommended) may be considered:

* What are the characteristics (including any special or unusual features) of the security or strategy?
* What are the initial and subsequent costs (if any, *e.g.,* surrender or redemption costs) of the security or strategy?
* How liquid is the security?
* What are the risks, volatility, and likely performance in a variety of market conditions (normal or stressed)?
* What is the expected return of the security?
* What are the financial incentives to recommend the security or investment strategy?
* Are there alternative investments or strategies, at lower cost, that may meet the customer's needs? More costly products may be recommended provided there is a reasonable basis to believe they are in the best interest of the customer. There is no obligation to recommend the "best" of all possible alternatives.

#### 5.7.3.2 Recommending Types of Accounts

RRs must have a reasonable basis for recommending accounts (margin, brokerage or advisory, IRAs, *etc.*). This includes the following considerations:

* services and products provided in the account;
* projected cost of the account;
* alternative account types available;
* services the retail customer requests; and
* the retail customer's investment profile. Profile elements include age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information disclosed by the customer.

Additional considerations when recommending IRAs (including rollovers or transfers of assets in a workplace retirement plan account to an IRA) include:

* customer's current financial situation and liquidity needs;
* fees and expenses;
* level of services available;
* ability to take penalty-free withdrawals;
* application of required minimum distributions;
* protections from creditors and legal judgments;
* holdings of employer stock; and
* any special features of the existing account.

#### 5.7.3.3 Costs

The RR should understand and consider the potential costs associated with the recommendation and have a reasonable basis to believe that the recommendation does not place the financial or other interest of Company or RR ahead of the interest of the retail customer. While cost must be considered, it should never be the only consideration. Cost is only one of many important factors to be considered regarding the recommendation and that the standard does not necessarily require the "lowest cost option." RRs need to consider costs in light of other factors and the retail customer's investment profile.

#### 5.7.3.4 Alternatives

Alternatives should be considered before making recommendations to a particular retail customer. This does not mean customers must be offered all alternatives or necessarily the lowest-cost alternative or the "single best" alternative. Reasonably available alternatives include considerations of, for example:

* An RR's customer base (including the general investment objectives and needs of the customer base)
* Investments and services available to the RR to recommend (including limitations due to the RR's licensing)
* Specific limitations on the available investments and services with respect to certain retail investors (*e.g.,* product or service income thresholds; product geographic limitations; or product limitations based on account type, such as those only eligible for IRA accounts)

#### 5.7.3.5 Quantitative Suitability

RRs may not make recommendations that result in transactions excessive for the customer considering the customer's investment objectives (also known as "churning"). A series of recommended transactions must be in the customer's best interest. The customer may be contacted by Company to confirm that active trading is appropriate.

#### 5.7.3.6 Material Limitations

If Company materially limits its product offerings to certain proprietary or other limited menus of products or third-party arrangements, its limited menu does not justify a product recommendation that is not in the customer's best interest.

### 5.7.4 Conflict of Interest Obligation

A conflict of interest is an interest that might incline a BD or an RR - consciously or subconsciously - to make a recommendation that is not disinterested. Conflicts may exist between the BD and the retail customer; between the RR and the retail customer; and between the BD and the RR. Additional conflicts may exist between customers (*e.g.,* IPO allocations or proprietary research or advice among different types of customers).

Company has an obligation to avoid or mitigate conflicts of interest where possible and provide disclosure where conflicts may exist.

Company will identify conflicts and, where appropriate, identify material limitations placed on the investment product or strategy and any conflicts associated with such limitations (*e.g.,* limited product menu, proprietary products only, *etc.*) and make necessary disclosures. In addition, the Annual Regulatory Checklist will also help to detect any unreported conflicts.

Depending on a product’s complexity, an enhanced product review process may serve in identifying material limitations or conflicts of interest. Company could either decline to recommend the product or offer further disclosures when a conflict cannot be mitigated.

Incentive programs (whether provided by Company or a third party) such as sales contests, sales quotas, bonuses, non-cash compensation, *etc.,* within a limited period of time are prohibited if they are based on:

* a specific product; or
* types of securities.

This requirement is not intended to prohibit training or education meetings, provided they are not based on the sale of specific securities within a limited period of time.

RRs have an obligation to avoid conflicts of interest when dealing with retail customers; some examples are listed below.

1. Recommending proprietary products because they result in higher compensation without considering the customer's needs and alternative investments.
2. Recommending other products or services based on compensation/incentives from Company or third parties.

### 5.7.5 Compliance Obligation

Company has adopted policies and procedures reasonably designed to achieve compliance with Reg BI. It is the responsibility of RRs to be familiar with these requirements and act in the customer's best interest at all times. In addition, the remaining sections of 5.7 address further Compliance Obligations of the regulation. Questions should be referred to Compliance.

#### 5.7.5.1 Controls

Company conducts reviews of the following:

* **New Accounts** – each account is reviewed and approved by a principal and Compliance which includes product selection verses the investment profile. and conducts an annual testing and internal review for policies and procedures.
* **Trades** – a Principal and Compliance review trades on a regular basis as well as Compliance reviews monitoring reports from the clearing firm that include excessive trading.
* **Policies and Procedures** – Company reviews and updates its policies and procedures on an ongoing basis to help ensure compliance with regulations. Form CRS will a
* **Annual Regulatory Checklist** – Company requires an annual regulatory checklist to ascertain any conflicts of interest that have not been reported to Company or that are forthcoming.
* **Internal Review** – Compliance conducts an annual review and testing of policies and procedures which will include compliance with Reg BI.
* **Form CRS** - Form CRS will also be reviewed at least on an annual basis to ensure information is current or if any material amendments may be required.

#### 5.7.5.2 Non-Compliance

If Company becomes aware of non-compliance with a part of the regulation (or any other regulation), Compliance and/or a principal will review and asses what action(s) may need to be taken to address the non-compliance or for remediation. This may include some of the following:

* A review of any discovered account and related transactions and take any necessary actions with a registered representative or customer to help remediate the issue.
* Review and update any gap in policies and procedures and add it to the annual review to ensure future compliance.
* Review and update the Form CRS if any material changes.
* Review and update any items that may need to be added to the annual regulatory checklist to capture that information.

Subsequently, Morris Monroe will have the ultimate responsibility for approving and ensuring the processing of such action or restitution.

#### 5.7.5.3 Training

Company conducts at least annual training for its Associated Persons. This includes the annual compliance meeting, continuing education, and intermittent training on compliance issues. Training may be conducted in person, online, telephonically, emailed notices, etc.; all in effort to ensure compliance with Reg BI and other regulations and Company procedures *(further information in Section 5.7.8).*

### 5.7.6 Form CRS (Customer Relationship Summary)

Company’s Customer Relationship Summary (Form CRS) provides clients with succinct information about the relationships and services Company offers, fees and costs that clients will pay, specified conflicts of interest and standards of conduct, and disciplinary history, among other things. Since Company is a Broker/Dealer and has an affiliated RIA, one combined form will be used for both entities.

#### 5.7.6.1 Content

Morris Monroe (CCO) will ensure the Form CRS includes the following content:

* **Item 1 – Introduction**: The date appears prominently at the beginning of the Relationship Summary (*e.g.,* in the header or footer of the first page or in a similar location for a Relationship Summary provided electronically) and make the other requirements of Item 1 of Form CRS.
* **Item 2 - Relationships and Services**: Company's investment services offered to retail clients to be disclosed including summaries of the principal services, accounts, or investments it makes available to retail clients, and any material limitations on such services. Additionally, this section must include the five "conversational services" listed in Item 2.
* **Item 3 - Fees, Costs, Conflicts, and Standards of Conduct**: Describes Company’s fees, fixed fees, product level fees as well as other fees and costs related to its services.
* **Item 4 - Disciplinary History**: Disclose Company's disciplinary history in the Relationship Summary as well as the required "conversational starter."
* **Item 5 - Additional Information**: Sets forth where the retail client can find additional information about Company’s investment advisory services and request a copy of the relationship summary as well as a telephone number where retail investors can request up-to-date information and request a copy of the relationship summary. The required "conversational starter" must be included.

#### 5.7.6.2 Filings

Company and its affiliated RIA will have a period of time beginning on **May 1, 2020** until **June 30, 2020** to file its initial Relationship Summary. Both companies must file its Form CRS electronically with the SEC through the Central Registration Depository (Web CRD) operated by the Financial Industry Regulatory Authority, Inc. (FINRA), and thereafter, file an annual amended Form CRS in accordance with the instructions in Form CRS. Company will make such filing in a text-searchable format and the filing will be structured with machine-readable headings.

#### 5.7.6.3 Amendments

Company will file an amended Relationship Summary as another-than-annual amendment or by including the Relationship Summary as part of an annual updating amendment, within the 30 days in which they are required to file the amendment. Subsequently, Company will deliver to existing clients within 60 days the most recent changes including an exhibit highlighting or summarizing material changes filed. Company will submit amended versions of its Relationship Summary as part of its annual updating amendment.

#### 5.7.6.4 Initial Delivery to Clients

Company will be required to deliver its relationship summary (Form CRS) as follows:

* To all existing clients who are retail investors on an initial one-time basis within 30 days after the date Company is first required to file its Relationship Summary with FINRA; and
* To each new retail client after June 30, 2020, its current Relationship Summary (Form CRS) before or at the time a person or entity becomes a retail client. The copy date of any Form CRS provided will be recorded in WinOps in the customer record; and

#### 5.7.6.5 Other Delivery Requirements

Company will deliver to each retail client who is an existing customer its current Form CRS before or at the time of a recommendation. The form is required upon the first event that triggers the requirement which includes when:

* A new account is opened, or an existing client opens a new account that is different from the retail client's existing account(s);
* Recommending that the retail client roll over assets from a retirement account into a new or existing account or investment; or
* Recommending or providing a new investment advisory service or investment that does not necessarily involve the opening of a new account and would not be held in an existing account.
* Recommending a new investment strategy.
* Recommending or providing a new service or product that does not necessarily involve opening a new account or would not be held in an existing account (for example – the first-time purchase of a direct mutual fund or insurance product that is a security through a “check and application” process.
* Any change is made to Form CRS. Company will communicate to each retail investor who is an existing client within 60 days after the amendments are required to be made and without charge. The communication may be made by delivering the amended Form CRS or by communicating the information through another disclosure that is delivered to the retail investor (or a summary or highlighted information of the changes).
* A retail investor requests a copy (provided within 30 days).

#### 5.7.6.6 Updates

Company must amend its Form CRS within 30 days whenever any information becomes materially inaccurate by filing with the SEC/FINRA an additional other-than-annual amendment or by including the Relationship Summary as part of an annual updating amendment. Updated summaries will be provided to customers within 60 days after material updates with changes highlighted. Updates may be provided electronically to customers who have consented to electronic delivery.

#### 5.7.6.7 Website

Company will post the current Form CRS prominently on its website, in a location and format that is easily accessible for retail clients.

#### 5.7.6.8 Dual Registrants

Dual registrants and affiliates (as defined in this chapter) are required to provide a Form CRS for both the broker-dealer and advisory relationships; the form may be combined. Broker-dealers have an obligation to file Form CRS with FINRA's CRD and advisers are required to file with IARD. Company and its affiliated RIA, Woodlands Asset Management, Inc., provide a combined form.

[SEC Form CRS instructions: <https://www.sec.gov/rules/final/2019/34-86032-appendix-b.pdf>; SEC FAQs on Form CRS: <https://www.sec.gov/info/smallbus/secg/form-crs-relationship-summary>; SEC Form CRS Relationship Summary Small Entity Compliance Guide: <https://www.sec.gov/info/smallbus/secg/form-crs-relationship-summary>]

### 5.7.7 Recordkeeping

Records of all information collected from and provided to the retail customer shall be maintained in accordance with recordkeeping rules. Records are not required to evidence best interest determinations on a recommendation-by-recommendation basis. Company also is not required to provide information regarding the basis for each particular recommendation. Records of Form CRS delivery will be retained for six years after the earlier of the date that the account was closed or the date on which the information was collected, provided, replaced or updated. A record of any notice to a client or potential client will be maintained in WinOps (group notices may be kept in excel).

### 5.7.8 Training

Company will ensure all Associated Persons are properly trained on Regulation BI and the corresponding Form CRS and Company’s policies and procedures related thereto. A record of any training and the content will be maintained by Company as part of its records for a period of three years.

## 5.8 Accounts for Association and AMEX Employees

The Company currently does not maintain any Association or AMEX Employee (“employee”) accounts. However, in the event it does in the future, the Company shall promptly obtain and implement an instruction from the employee directing that duplicate account statements be provided by the Company to the Association. The Company shall not directly or indirectly make any loan of money or securities to the employee other than those allowed by law. The Company shall not directly or indirectly give, or permit to be given, anything more than nominal value, as set forth in FINRA Rule 3220, to any employee who is responsible for any regulatory matter.

## 5.9 FINRA Rule 2070-Transactions Involving FINRA Employees

Pursuant to FINRA Rule **2070**, the Company will ensure:

(a) When it has actual notice that a FINRA employee has a financial interest in, or controls trading in, an account, the Company shall promptly obtain and implement an instruction from the employee directing the Company to provide duplicate account statements to FINRA.

(b) It does not directly or indirectly make any loan of money or securities to any FINRA employee. However, this prohibition does not apply to loans made in the context of disclosed, routine banking and brokerage agreements, or loans that are clearly motivated by a personal or family relationship.

(c) Notwithstanding the annual dollar limitation set forth in Rule 3220(a), it does not directly or indirectly give, or permit to be given, anything above nominal value to any FINRA employee who has responsibility for a regulatory matter involving the Company. For purposes of this paragraph, the term "regulatory matter" includes, but is not limited to, examinations, disciplinary proceedings, membership applications and dispute-resolution proceedings.

## 5.10 FINRA Rule 3110(f)-Predispute Arbitration Agreements

Pursuant to FINRA Rule 3110(f), the Company will provide a copy of its customer agreement containing the predispute arbitration clause to the customer, who must acknowledge receipt thereof on the New Account Form, at the time of signing. The time requirement for delivery of a copy of the customer agreement from the time of signing must be within 30 days of signing. In addition, the Company will provide customers who request a copy of any predispute arbitration clause or client agreement with a copy within 10 business days of the request. The changes to FINRA Rule 3110(f) approved by the SEC on November 22, 2004, became effective on June 1, 2005.

### 5.10.1 FINRA Rule 2268 – Disclosures *(eff 12/05/11)*

FINRA Rule 2268 requires, among other things, that predispute arbitration agreements contain certain highlighted disclosures so that customers are advised about what they are agreeing to when they sign them. The new rule continues the requirements of NASD Rule 3110(f) and updates the disclosure language to reflect amendments to FINRA Rule 12904, which requires arbitrators to provide an explained decision to the parties in eligible cases if there is a joint request by all parties at least 20 days before the first scheduled hearing date. The disclosure provision regarding explained decisions will apply prospectively to predispute arbitration agreements entered into on or after December 5, 2011, the effective date of the Rule.

## 5.11 Suitability

When opening and maintaining customer accounts that are not subject to Reg BI (i.e. entities and institutions (e.g. pension funds) and natural persons who will NOT use recommendations primarily for personal, family, or household purposes (e.g., small business owners and charitable trusts), Company and its RRs are obligated to use reasonable due diligence to “know the customer” by obtaining essential facts about the customer and the authority of each person acting on behalf of the customer.

However, all Associated Persons will determine each customer's investment objectives and desires (whether subject to Reg BI or not). These objectives and desires will be evaluated with respect to each client's circumstances and financial condition. Investments will not be allowed nor recommended which are not compatible with the objectives and desires of each customer.

Factors to be utilized in determining such objectives and desires will be:

(a) Customer's relative financial position;

(b) Income and type of employment;

(c) Level of education or financial experience;

(d) Marital status;

(e) Customer's ability to hold an investment, long term;

(f) Age;

(g) Liquidity needs; and

(h) Time horizon:

Short – less than five years;

Medium – between 5 and 10 years; and

Long – greater than 10 years.

Every Associated Person must make a reasonable effort to obtain this information for every new account on the New Account Form and updated when necessary or received from the customer.

All Associated Persons shall conduct their business by observing the high standards of commercial honor and just and equitable principals of trade as promulgated by our regulatory authorities and Company’s procedures. In addition, Associated Persons may not offer tax advice and should refer clients to their tax professional.

### 5.11.1 Suitability of Recommendations

RRs must have a reasonable basis for believing that a recommended transaction or ***investment strategy*** involving a security or securities is suitable for the customer. Recommendations should be based on information obtained through reasonable diligence to ascertain the customer's investment profile listed above and any other information the customer may disclose in connection with the recommendation.

### 5.11.2 Investment Strategy

“Investment strategy" is defined in FINRA rules to include, among other things, an explicit recommendation to hold a security or securities. However, the following communications are excluded as long as they do not include (standing alone or in combination with other communications) a recommendation of a particular security or securities:

1. General financial and investment information, including (i) basic investment concepts, such as risk and return, diversification, dollar cost averaging, compounded return, and tax deferred investment, (ii) historic differences in the return of asset classes (*e.g.,* equities, bonds, or cash) based on standard market indices, (iii) effects of inflation, (iv) estimates of future retirement income needs, and (v) assessment of a customer's investment profile;
2. Descriptive information about an employer-sponsored retirement or benefit plan, participation in the plan, the benefits of plan participation, and the investment options available under the plan;
3. Asset allocation models that are (i) based on generally accepted investment theory, (ii) accompanied by disclosures of all material facts and assumptions that may affect a reasonable investor's assessment of the asset allocation model or any report generated by such model, and (iii) in compliance with NASD IM-2210-6 (Requirements for the Use of Investment Analysis Tools) if the asset allocation model is an "investment analysis tool" covered by NASD IM-2210-6; and
4. Interactive investment materials that incorporate the above.

**Hold Recommendations**

Suitability obligations apply to recommendations to hold a security or securities or to continue to use an investment strategy, even if the RR did not recommend the original purchase. RRs should disclose and document (on the order record or the account records) that the hold recommendation is based on relevant factors known at the time of the recommendation only, and that continued monitoring or recommendations will not occur (if that is the case). Some hold recommendations should be documented including those for shorter-term investments; those that have a periodic reset or similar mechanism that could alter the investment's character over time; those that are particularly vulnerable to market conditions; or those that are otherwise potentially risky when the recommendation is made. For example, risky investments may include leveraged ETFs, mortgage REITs, an issuer facing significant financial or other material risks, an over-concentrated position, and a security inconsistent with the customer's investment profile. These hold recommendations should be documented in the account records.

**Complex Products**

The suitability of recommendations of complex investments should be documented on the order record or in the account records (or WinOps). FINRA provided examples of complex products to include:

* Asset-backed securities secured by a pool of collateral;
* Unlisted REITs;
* Investments with an embedded derivative component;
* Products with contingencies in gains or losses;
* Structured notes with "worst of" features; and
* Investments linked to the performance of markets that may not be understood by investors.

Documentation provides support for the RR and the Company in the event of a future question about suitability, either from a regulator or in a civil (court or arbitration) context.

### 5.11.3 Components of Suitability Obligations

As excerpted from the suitability rule, there are three main obligations: reasonable-basis suitability, customer-specific suitability, and quantitative suitability.

1. The reasonable-basis obligation requires a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors. In general, what constitutes reasonable diligence will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy and the Company's or RR's familiarity with the security or investment strategy. Reasonable diligence must provide an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.
2. The customer-specific obligation requires a reasonable basis to believe that the recommendation is suitable for a particular customer based on that customer's investment profile which includes the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose.
3. Quantitative suitability refers to avoiding excessive activity and requires a firm or RR who has actual or de facto control over a customer account to have a reasonable basis for believing that a series of recommended transactions, even if suitable when viewed in isolation, are not excessive and unsuitable for the customer when taken together in light of the customer's investment profile. No single test defines excessive activity, but factors such as the turnover rate, the cost-equity ratio, and the use of in-and-out trading in a customer's account may provide a basis for a finding a violation of the quantitative suitability obligation.

### 5.11.4 Risk Based Approach

Company is taking a risk-based approach to applying the components of the suitability rules. First, there may be different levels of risk associated with a securities transaction or a series of transactions and/or secondly, with an investment strategy associated with an account. New accounts (beginning July 9, 2012) will be assigned a Suitability Risk Level in WinOps with the following indicators:

* **High**: the account will likely have an investment strategy or incur a series of transactions or complex products that requires heightened supervision and review of recommendations to determine suitability for the customer.

When a High level is assigned:

1. A Heightened Customer Supervision Form will be completed and signed by both the RR and Supervisor or Compliance and maintained in WinOps;
2. Review with the RR the heightened status and their intentions for the account and the information required for the form and their signature;
3. Contact the customer when questions arise or to confirm their understanding or acknowledgement and document said contact in the Heighted Customer Supervision Form in WinOps;
4. Utilize amended Product Disclosure Forms that discusses any investment strategy or suitability risks; and
5. The designated supervisor or Compliance will run account-specific monthly blotters to be maintained as evidence of review.

* **Medium**: there may be some concern as to the security or securities being recommended. This may be due to certain type of products that are considered to be a higher risk for investors or more complex. It may also include an account where an investment strategy may require more supervision to ensure suitability. Depending on the circumstances as determined by Morris Monroe and indicated on any Heightened Customer Supervision Form, some or all the same steps above may be followed.
* **Low**: no heightened supervision is necessary. This may include accounts that typically invest in mutual funds, 529 plans, employer plans and occasional purchases in a HTS account for mutual funds, equities, and bonds and accredited investors purchasing private placements will meet the same supervision as before Rules 2090 and 2111 became effective and will not need further documentation.

### 5.11.5 Customer Financial Ability

Rule 2111 prohibits recommending a transaction or investment strategy involving a security or securities or the continuing purchase of a security or securities or use of an investment strategy involving a security or securities unless the Company or Associated Person has a reasonable basis to believe that the customer has the financial ability to meet such a commitment.

### 5.11.6 Institutional Accounts

There is an exemption from suitability obligations from customer-specific recommendations when made for certain institutional accounts defined by Rule 4512(c).

*Definition*

For purposes of this Rule, the term "institutional account" shall mean the account of:

(1) A bank, savings and loan association, insurance company or registered investment company;

(2) An investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or

(3) Any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least $50 million.

Factors to consider when determining the scope of the Company’s suitability obligation when making recommendations to institutional customers include:

1. The customer’s capability to evaluate investment risk independently both in general and with regard to particular transactions and investment strategies involving a security or securities; and
2. The institutional customer’s affirmation indicating that it is exercising independent judgment in evaluating the recommendations.

An institutional customer may indicate that it is exercising independent judgment on a trade-by-trade basis, on an asset-class-by-asset-class basis, or in terms of all potential transactions for its account. Institutional accounts will be requested to provide the Institutional Suitability Certificate (from <http://www.sifma.org/services/standard-forms-and-documentation/cross-product/#isc> ) to comply with the exemption.

Where an RR has reason to believe an institutional investor is not capable of understanding an investment or making an independent decision, the RR is obligated to make a specific suitability determination and should note this action on order records, in the RR's records, or in the account's records.

## 5.12 Delivery and Acceptance of Checks and Securities

Pursuant to net capital limits, Company does not hold customer funds or securities and therefore has the following procedures in place:

### 5.12.1 Checks Received

1. Checks received in an office must be forwarded by noon the following day to the intended recipient (unless otherwise indicated by direct mutual fund purchases and variable annuities).

For subscription way business, Company is obligated, by FINRA rule, to transmit customer payments to the payees (*i.e.,* underwriters, investment companies or their designated agents) by the end of the third business day following receipt of a customer's order to purchase or by the end of one business day following receipt of a customer's payment, whichever is the later date.

RRs must safeguard each check and promptly prepare and forward a complete and correct application package to the designated OSJ. The Principal at the OSJ will perform a suitability review and determine whether to approve each subscription-way sale within seven business days after receiving a complete and correct application package. Checks will be transmitted no later than noon of the business day following the date the Principal reviews and approves the transaction.

1. Make copy of check for files and enter into Checks Received and Forwarded Blotter in WinOps.
2. If check is for deposit into HTS, prepare deposit; make copy of deposit for cashiering file, and process through HTS/RemitPro for electronic deposit. Verify customer account numbers and make sure account numbers are on customer checks.
3. If check is to be forwarded to product vendor, forward in mail (may be overnight) along with any application materials. Maintain sender’s portion of delivery ticket in central location for proof of delivery if applicable.
4. Checks made payable to the Company instead of the intended recipient will be returned promptly to the customer, by the next business day, to re-issue the check to the proper recipient. Any check payable to Company and/or returned to Customer will also be logged in the Send/Rec Log (checks received and forwarded blotter) and a copy of the check maintained in the cashiering file. In the event, a check made payable to the Company or branch office is deposited or forwarded to the intended recipient, Compliance or other personnel will follow up with the deposit to ensure the funds were not deposited into a Company or branch account with evidence of review indicated in the Cashiering file.

### 5.12.2 FINRA Rule 4514 - Negotiable Instruments Drawn from a Customer’s Account

A customer’s written signature is required whenever the Company obtains or submits for payment a check, draft, or other form of negotiable paper from a customer’s checking, savings, share, or similar account. Where the written authorization is separate from the negotiable instrument, the member shall preserve the authorization for a period of three years following the date the authorization expires. This provision shall not, however, require members to preserve copies of negotiable instruments signed by customers.

#### HTS Draft Writing

In addition to obtaining the signed authorization, the following steps for draft writing on HTS accounts applies:

1. Branches authorized with draft writing capabilities must ensure a secure, locked location and limited access to draft records. Do not leave terminals or draft locations unattended. Do not leave blank drafts or completed drafts unattended or in unsecured locations overnight.
2. Authorized signatories must be submitted to HTS Accounting Department (as well as any additions, deletions, temporary changes, etc.). Approvals must be obtained by HTS (Customer Service, Retirement Department, etc.) prior to disbursing any funds. Use drafts in numerical sequence. Any breaks in sequence must be reported to HTS Accounting Dept. Current authorized personnel/signatories are Morris Monroe, Laura Hendricks and back-office personnel in the home office.
3. Each person authorized with draft privileges should be trained in proper reading of accounts, draft approval thresholds and requirements, void and stop payment procedures, and controls of draft inventory.
4. An authorized signature is required on each draft. Signed, blank checks are prohibited. Only complete check information with amount and payee may be signed.
5. A Disbursement Log must be maintained recording Date of Disbursement, Draft Number, Account Name, Account Number, Reason for Disbursement, and Amount. Maintain a record of all voided drafts. Any replacements drafts must be made payable to same payee as the original draft.
6. Maintain copies of drafts with the appropriate HTS employee approval indicated along with any written signed authorization in a central location.

### 5.12.3 Securities Certificates Received and Delivered

Any securities received by the Company, will promptly be returned to the customer, by the next business day, for forwarding directly to the clearing firm themselves. Copies of the certificates forwarded by customer may be maintained in client file. This applies to stock certificates only. Any variable annuity contracts received by the Company will be forwarded promptly to the customer.

In the event the Company increases its net capital to the required level, the procedures will be as follows:

1. Back office must maintain secure possession of certificates once received. Process and send same day to clearing firm with appropriate documentation. We cannot hold client certificates overnight.

2. Stock powers are required if client did not sign back of certificate. If client did sign, make sure the name on the certificate matches the signature.

3. Make copies of certificates (both sides if back is signed).

5. Fill out stock received blotter.

6. Check certificates and stock power (if applicable) for errors.

7. Check Cusip number, certificate number, client account number and security description.

8. Send certificate and stock power via Airborne to clearing firm, Attn: Stock Receipts.

9. Attach copy of certificates and stock power and file in stock received file.

### 5.12.4 Lost Security holders and Unresponsive Payees

Company, through its clearing firm, is required to search for holders of securities with whom it has lost contact and to provide notifications to persons who have not negotiated checks that have been sent to them. "Lost security holders" are customers to whom any correspondence was sent and returned as undeliverable and for whom an updated address has not been received or is not obtainable from the customer. **The requirement does not apply when the security holder is not a natural person, the security holder is deceased, the total value of assets in the account is less than $25, or the check amount is less than $25.**

## 5.13 Currency and Foreign Transactions

It is a policy of the Company not to accept any cash payments for stock purchases or amounts to be credited to a customer's account. In addition, no checks drawn on foreign banks will be accepted. Any wire to or from a foreign destination must be approved by Morris Monroe in advance. In the event any cash is ever deposited in error or any check drawn on foreign banks is deposited; the appropriate action will be taken as stated in the AML section of these WSPs.

## 5.14 Multi-State Registration Activities

New accounts shall be reviewed by the designated principal at each OSJ and compared with the Company's state registrations and/or a determination made as to the availability of transaction exemptions with the account's home state, at or prior to acceptance of the new account. It shall be the responsibility of the designated principal at each OSJ to have knowledge of the Company's state registrations, registrations of its agents and customer accounts to ensure compliance with all multi-state registration requirements and or any exemptions from registration. A quarterly report will be conducted in WinOps to review all outside states (other than Texas) to determine any regulatory issues. Customers occasionally move to new states and a determination needs to be made whether the Company and RR need to be registered there or to assist the customer in transferring their account. Any actions will be recorded either on the report and/or in the customer record in WinOps.

## 5.15 Fees Charged for Services

Pursuant to FINRA Rules, member firms are allowed to charge reasonable fees, if any, for such services including miscellaneous services such as collection of moneys due for principal, dividends, or interest, exchange or transfer of securities, appraisals, safekeeping or custodial services and other services. The Company will monitor any applicable charges via daily reports and any received from HTS for such transactions through the clearing firm. Any questionable charge will be immediately brought to the attention to Morris Monroe or the designated principal for further investigation.

## 5.16 Discretionary Account Activity

The following procedures have been established in the event a discretionary account is approved.

Transactions in discretionary accounts will be monitored for excessive activity. All orders placed for a discretionary account must be reviewed and initialed by Morris Monroe or the designated principal prior to execution. No account may be handled by a registered person of the Company unless a written Power of Attorney has been granted by the Customer to the registered person, and a copy of that Power of Attorney is on file in the customer's file. It shall be Morris Monroe’s responsibility to review discretionary accounts and to maintain evidence of review (or by another principal if applicable to Morris Monroe). In addition, review of Company’s trade blotters further evidences such review.

Written Authorization - No discretionary activity may be affected on behalf of any customer's account unless prior written authorization has been obtained from the customer. Such authorization must contain the nature of the relationship with the customer, specific activities authorized and/or not authorized by the customer, age, and occupation of the customer, investment objectives of the account and signatures of the customer and the registered representative. Said authorization may be in the form of the account opening documents and the customer(s)’ signature(s). All discretionary account authorizations will be reviewed annually.

The discretionary account form must be approved in writing by Morris Monroe or Laura Hendricks, PRIOR TO any discretionary activity on behalf of the customer. A copy of each discretionary account form must be maintained in the customer's file and must be sent to each customer.

Discretionary Transactions - Each discretionary transaction must be promptly approved in writing by Morris Monroe or the designated principal. The principal may elect to approve the orders prior to execution or may elect to approve discretionary offers soon after execution.

The principal shall review each discretionary order carefully to ensure that proper execution takes place with regard to pricing, commissions, etc. In addition, each discretionary order ticket must note that the transaction has been affected on a discretionary basis on behalf of the customer unless authorized by the customer.

Each discretionary account must also be the subject of regular and frequent reviews by Morris Monroe or his designee on behalf of the Company. Such review should be conducted to guard against excessive activity or improper transactions. In addition, Morris Monroe shall take steps to ensure that adequate disclosure of all account activities has been provided to the customer in the form of statements, confirmations, etc.

Excessive Activity - Discretionary transactions in a customer's account are strictly prohibited if they can be shown to be excessive in size or frequency given the investment objectives or absent customer’s knowledge and consent.

Particular attention must be given to discretionary account activities. Special consideration should be given to frequent buys and sells in the same security, large buys or sells that seem out of line with the customer's objectives or financial resources, purchases that are paid for out of the proceeds from the sales of other securities, and total commissions that appear excessive given the size of the account equity.

Several factors will be taken into account when reviewing for excessive activity. These include: investment objectives, sophistication of the customer, age, financial resources, and reason for discretionary account status and whether the customer is aware of such activity and receives confirmations and statements.

Rule **3260** allows members to exercise time and price discretion on orders for the purchase or sale of a definite amount of a specified security without prior written authorization from the customer or prior written approval by the member. However, the duration of this discretionary authority is limited to the day it is granted, absent written authorization to the contrary. In addition, any exercise of time and price discretion must be reflected on the customer order ticket.

## 5.17 Online HTS Account Access *(8/10/09)*

Company may grant customers online access to their Hilltop Securities clearing firm accounts through a clearing firm sponsored site and completion of said application. Any user id’s or passwords should be disclosed to customers preferably telephonically and not through email (to protect such information). In addition, any customer wishing order entry must be approved by the applicable supervisor or principal.

## 5.18 Forwarding of Proxy or Other Materials

The Company does not carry customer accounts and therefore does not forward proxy or other related materials.

## 5.19 Customer Account Statements and Confirmations

Customer statements and transaction confirmations are generated from and forwarded to customers from the account custodians.

Effective March 6, 2007, FINRA Rule 2340 requires that customer account statements include a notification to customers to promptly report any inaccuracies or discrepancies on their account statements to their introducing and clearing broker. The statement must also advise the customer that any oral communication should be reconfirmed in writing to further protect the customer’s rights to include those under the Securities Investor Protection Act (SIPA). As such, Morris Monroe or Compliance will be responsible for ensuring HTS prints such notification on the account statements. Additionally, the notification will contain the name, address and telephone number of the responsible individual/company who the customer can contact for inquiries regarding their account.

## 5.20 FINRA Rule 2020-Use of Manipulative, Deceptive or Other Fraudulent Devices

Pursuant to Rule 2020, the Company will not affect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

## 5.21 FINRA Rule 2140 Interfering with the Transfer of Customer Accounts in the Context of Employment Disputes *(eff 06/15/09)*

Neither the Company nor any Associated Person shall interfere with a customer's request to transfer his or her account in connection with the change in employment of the customer's registered representative where the account is not subject to any lien for monies owed by the customer or other bona fide claim. Prohibited interference includes, but is not limited to, seeking a judicial order or decree that would bar or restrict the submission, delivery or acceptance of a written request from a customer to transfer his or her account.

## 5.22 ACATS

When an ACAT (Automated Customer Account Transfer) request is received, the following procedures have been adopted to ensure timely processing:

1. Make sure proper forms are received for IRA's and regular accounts.

2. Check forms for account numbers, client name for client's signature.

3. Fill in and check for receiving account number.

4. Make sure statement is attached from incoming account and check number.

5. Double check account number, name and social security number.

6. Check DTC number (use NSCC directory).

7. Make sure account is set up with the Company if incoming ACAT.

8. Check carrying firm account number and if in correct space provided.

9. File copy in “Transfer” file until completed, thereafter, file in client file.

1. Send original to clearing firm or scan and email to same.
2. Incoming ACATS: Stock cannot be sold for a client against an incoming ACAT. Stock must be received and/or verified for the client account prior to any sale.

## 5.23 Transmittals and Withdrawals of Customer Assets

Company has adopted these procedures reasonably designed to ensure proper handling of transmittals and withdrawals of customer assets. Company will review and monitor the transmittal of funds and securities:

* From customer accounts to third-party accounts (i.e. may result in change of beneficial ownership;
* From customer accounts to outside entities (i.e. banks, investment companies, etc.);
* From customer accounts to locations other than their primary residence or address of record; and
* Between customers and Associated Persons.

Each OSJ will maintain an operations/cashiering file in a central location to record all transmittals and withdrawals of customer assets.

**Procedures**:

Back office or Operations personnel (or other designated individuals) are responsible for processing the following:

* Any transfers to third parties require written letters of authorization (LOAs) with original signatures by all applicable parties per the registration type – i.e. Joint owners, etc.) or vendor proprietary forms and maintained by the Company or forwarded to the appropriate custodian for handling. LOAs may be received or transmitted by mail or other means including electronic communication with verifiable signature. Any forms requiring a signature guarantee will be stamped by authorized personnel only (as described below in this Section 5).
* If an LOA copy is not presented in person by the customer, the customer’s signature shall be verified against existing account records.
* Where transfers to a third party are ongoing, a “standing” LOA is permitted. Notification will be sent to the customer confirming the transfer.
* Funds and securities will be sent to the customer's address of record unless the customer provides **written** authorization to use an alternative address.
* Copies of LOAs are retained in Company’s records.
* The customer will be contacted by phone, mail, or other means independent of the email account to verify the accuracy of the instructions.
* The RR, assistant, or operations person receiving instructions should be aware of “red flags” (i.e. funds to be transferred to an unfamiliar third party, particularly in a foreign country, transfers that appear to be out of the ordinary for the customer, and requests that indicate urgency or otherwise appear designed to deter verification of transfer instructions).
* If Company processes any transactions through its clearing firm, the clearing firm will have its own procedures to prevent unauthorized third-party transmittals.
* Any request to pick up funds in person must present a picture ID if their identification is unknown to personnel and noted on the Company copy of said disbursement.
* HTS draft writing procedures are described above in this Section 5 to be followed or if HTS will issue the check, forward the request to the Cashiering or other applicable department promptly for processing.
* Suspicious or questionable activity must be brought to the attention of Morris Monroe or Laura Hendricks to determine whether a Suspicious Activity Report must be filed. Such activities may include transfers without required authorizations, a pattern or transfers that have no reasonable business basis, or any other activity the employee considers suspicious.

## 5.24 STAMP Signature Guarantees

The following procedures have been adopted to process requests for signature guarantees and to safeguard the equipment:

1. When not in use, equipment must be locked in a drawer or cabinet at all times. Only employees of the Company may act as signatories. Only authorized personnel may maintain the key:

Morris Monroe, Laura Hendricks, and all home office back-office personnel who have conducted training and certification.

1. The endorser(s) MUST be a customer, have a continuing relationship with Company or is entering a relationship with Company. Every diligent effort must be made to ensure the person whose signature is being guaranteed is authentic (request photo ID), has the authority to endorse, is of majority age and in control of their affairs. Endorser(s) should be in your presence.
2. Only transactions or securities whose value does not exceed $250,000 are authorized for guarantee.
3. Record transaction imprint in the GUARANTEE CONTROL LOG.
4. Never re-ink a pad – reorder new pads from Company Home office.
5. Notify Morris Monroe or Laura Hendricks if any equipment is lost or stolen.
6. Ensure any new back-office personnel are trained on the use of the equipment. Such training will be conducted by Compliance or senior back office personnel on Company procedures and new employees will be required to complete the Kemark Financial training at [www.STAMPesource.com](file:///\\VFS01\Company\Users\LHendricks\COMPLIANCE\WSPs\www.STAMPesource.com).
7. Company will maintain an inventory of active and inactive or destroyed equipment and review at least annually.
8. Company shall pay the annual premium for the Surety Bond required by the administrator of the STAMP program.

## 5.25 Senior Investor Guidelines

In order to address one of the most significant trends in our business – the aging of the population and, consequently, the growing number of Company’s clients who are at or near retirement age, the following guidelines have been adopted when dealing with senior investors.

*Resources:* SEC/NASA 2008 report on Protecting Senior Investors:

<http://www.sec.gov/spotlight/seniors/seniorspracticesreport092208.pdf>; 2010 addendum to 2008 report: report: <http://www.sec.gov/spotlight/seniors/seniorspracticesreport081210.pdf>; SEC web site Senior Investors: <http://www.sec.gov/divisions/marketreg/seniorinvestors.htm>; FINRA Rule 2165 and 4512; FINRA Regulatory Notice 22-05, 17-11, 11-52 and 07-43; FINRA FAQs re financial exploitation of seniors: <http://www.finra.org/industry/frequently-asked-questions-regarding-finra-rules-relating-financial-exploitation-seniors>; Senior Safe Act: Sec. 303 of Economic Growth, Regulatory Relief and Consumer Protection Act; NASAA/SEC/FINRA Senior Safe Act Fact Sheet: <http://www.nasaa.org/wp-content/uploads/2019/05/Senior-Safe-Act-Fact-Sheet.pdf>]

### 5.25.1 Suitability

In addition to the standard suitability review for all accounts, additional attention should be focused on the following:

**Investment time horizon**: Older clients may have a shorter investment time horizon than younger clients. This fact may affect the client’s ability to handle risk. When a senior client incurs investment losses, he or she may not have sufficient time to recoup those losses in the market. At the same time, the American population is living longer. A senior investor’s portfolio may need to fund a retirement that lasts for decades.

**Changes in investment objectives**: As clients retire, they often move from an “accumulation” mode into a “distribution” mode. Therefore, growth may be less important than a reliable income for many older investors.

**Liquidity needs**: Older clients may incur substantial expenses, particularly related to health care costs. These expenses may arise unexpectedly, so it is important for clients to have sufficient liquidity to meet both foreseeable and unforeseeable needs.

**Possible changes in tax status**: As clients retire, their tax status may change. Although it is the client’s responsibility to consult his or her tax professional, Associated Persons should be sensitive to tax considerations when making recommendations to older clients.

**Risk tolerance**: As client’s age and income levels may decrease with retirement, clients’ appetite for assuming investment risks may decline as well. Associated Persons must take this into account and find investments that have a degree of risk clients will be comfortable bearing.

In addition, as part of knowing your customer, it is important to keep up-to-date information on the following factors as well:

***Employment:*** *Is the customer currently employed? If so, how much longer does he or she plan to work? Is the client planning to work part-time in retirement?*

***Expenses:*** *What are the customer's primary expenses? For example, does the customer still have a mortgage? Are they planning to travel once retired?*

***Income Needs:*** *How much income does the customer need to meet fixed or anticipated expenses?*

***Savings:*** *How much has the customer saved for retirement? How are those assets invested?*

***Liquidity:*** *How important is the liquidity of income-generating assets to the customer? Does the client have liquid assets to meet anticipated and unanticipated needs?*

***Goals:*** *What are the customer's financial and investment goals? For example, how important is generating income, preserving capital or accumulating assets for heirs?*

***Health:*** *What health care insurance does the customer have? Will the customer be relying on investment assets for anticipated and unanticipated health costs?*

### 5.25.2 Communications with the Public

All communication with the public must be truthful and in good taste, fair and balanced, and not project performance or promise specific results. However, FINRA, the SEC, and State regulators are increasingly focused on communications and seminars aimed at senior investors. Based on various studies and “regulatory sweeps,” the regulators have identified a number of potentially inappropriate practices.

For example: “High Pressure Sales Tactics.” This may include the use of language such as “Limited Seats Available”, or “You must act now.” Such language would be inconsistent with the Company’s guidelines for communications.

Another example is lavish inducements offered to seminar attendees. These may include expensive meals or fancy door prizes. Meals and entertainment offered to clients must not be lavish. The focus must be on the content of the seminar – not the inducements.

The regulators are also concerned about misrepresentations regarding the nature of the seminar. Statements such as “Educational seminar -- Nothing will be sold” may not be appropriate if a product vendor will be presenting a particular product. Company policies prohibit any misrepresentations.

Finally, seminar presentations must not contain exaggerated promises, such as guarantees of high returns that cannot be substantiated. Again, Company policies prohibit any misrepresentations or exaggerations in client communications.

Consequently, Associated Persons must adhere to the following procedures as related in senior investors in particular:

• Any seminar, whether geared toward seniors or not, must be approved by Morris Monroe or the Compliance Department only. A Sales Seminar Notice form must be completed along with all materials to be presented, including the invitation, as well as information regarding any speaker(s). If a door prize will be included as part of the seminar, keep in mind Compliance Department pre-approval is required. Prizes must be of nominal value; and the prize cannot be cash, coins or securities. If a product vendor is reimbursing all or part of the expenses of the seminar, additional procedures apply. A Non-Cash Compensation form must also be submitted, and a representative of the vendor must be present at the seminar, regardless of the amount of reimbursement being provided.

• In addition, any securities related communication geared specifically to a senior targeted audience must be pre-approved by Morris Monroe or the Compliance department.

• All professional designations must be approved by Morris Monroe or the Compliance Department and the use of any “senior specialist” is strictly prohibited.

### 5.25.3 Product Consideration

While no product is, per se, unsuitable for senior investors, it should also be noted that changes to the investment time horizon, liquidity needs and/or risk tolerance of senior investors may affect the suitability of certain recommendations. Therefore, products having certain features warrant careful consideration with senior clients. For example:

• Products that have withdrawal penalties or otherwise lack liquidity may be inconsistent with an older investor’s liquidity needs and investment time horizon. As clients get older, they may incur expenses for things such as health care, prescription drugs, and nursing homes. They may need to tap their investment assets to meet these expenses, and therefore, need a certain amount of liquid assets to meet these needs.

• Products with long holding periods may not be appropriate for senior investors. For example, products with far reaching dates of maturity (where principal is protected only at maturity) may not be appropriate for investors with shorter time horizons.

• Likewise, an investment that requires an extended period of time for the investor to realize its full benefits may not be suitable for a client with a limited time horizon due to age or poor health.

• Be mindful of recommending too much risk in order to maximize retirement income as the client approaches retirement; or ignoring “inflation risk” – that is, the risk that client’s investments will not hold up against inflation. Certain low-yielding investments may not protect an investor’s assets over time (i.e. a 60-year-old client in excellent health who wishes to retire early and live off his investments. A portfolio consisting of CDs or Treasury Bonds might not hold up against inflation).

• Finally, older investors may have particular difficulty evaluating the costs and risks of products that are highly complex in nature.

Associated Persons need to seek the right balance between preserving assets and allowing for enough growth to fund what could be a long retirement. For clients with a long investment horizon, growth will be an important consideration, while other clients may have health issues that would make preservation and liquidity of existing assets the paramount concerns. One size does not fit all when it comes to investment recommendations. That is why the strategy and products recommended should always be tailored for the senior client’s circumstances, goals, level of sophistication, and need for liquidity.

***Prohibited Recommendations****: Associated Persons are prohibited from recommending any client to withdraw equity from their home in order to purchase securities.*

### 5.25.4 Senior Safe Act/ FINRA Rule 2165 – Financial Exploitation of Seniors

Beginning February 5, 2018 and pursuant to FINRA Rule 2165, Company will inquire of all customers a **Trusted Contact** (which includes natural person customers age 65 or older or who have physical or mental impairments Company reasonably believes are unable to protect their own interest) and disclose under what circumstances it may contact that person(s). In addition, Company will have the option to hold the disbursement of funds and/or securities from a “specified account” for up to 14 days if it believes financial exploitation has, is, or is about to occur. A specified account is for someone 65 or older or who is 18 or older and unable to protect his or her own interests based on the facts and circumstances observed in the Company’s business relationship with the person (i.e. mentally or physically impaired).

For purposes of this rule, financial exploitation shall include

* the wrongful or unauthorized taking, withholding, appropriation, or use of a Specified Adult's funds or securities; or
* any act or omission by a person, including through the use of a power of attorney, guardianship, or any other authority regarding a Specified Adult, to:

(i) obtain control, through deception, intimidation or undue influence, over the Specified Adult's money, assets or property; or

(ii) convert the Specified Adult's money, assets or property.

#### 5.25.4.1 Temporary Hold on Disbursements

Company may place a temporary hold on a disbursement of funds or securities from the Account of a Specified Adult if:

1. The member reasonably believes that financial exploitation of the Specified Adult has occurred, is occurring, has been attempted, or will be attempted; and
2. The member, not later than two business days after the date that the member first placed the temporary hold on the disbursement of funds or securities, provides notification orally or in writing, which may be electronic, of the temporary hold and the reason for the temporary hold to:

(i) all parties authorized to transact business on the Account, unless a party is unavailable or the member reasonably believes that the party has engaged, is engaged, or will engage in the financial exploitation of the Specified Adult; and

(ii) the Trusted Contact Person(s), unless the Trusted Contact Person is unavailable or the member reasonably believes that the Trusted Contact Person(s) has engaged, is engaged, or will engage in the financial exploitation of the Specified Adult; and

1. The temporary hold authorized by this Rule will expire not later than 15 business days after the date that Company first placed the temporary hold on the disbursement of funds or securities, unless otherwise terminated or extended by a state regulator or agency of competent jurisdiction or a court of competent jurisdiction or extended pursuant to this Rule.

* The temporary hold may be extended 10 business days
* The temporary hold may be extended an additional 30 business days beyond the initial 25 days (the first 15-day hold plus the extension of 10 days) for a total potential hold of 55 business days

Provided Company's internal review of the facts and circumstances under this Rule supports the Company's reasonable belief that the financial exploitation of the Specified Adult has occurred, is occurring, has been attempted, or will be attempted, the temporary hold authorized by this Rule may be extended for no longer than 10 business days following the date authorized by this Rule, unless otherwise terminated or extended by a state regulator or agency of competent jurisdiction or a court of competent jurisdiction.

#### ****5.25.4.2 Supervision****

Any Company employee who detects the need for a hold shall notify Morris Monroe, the OSJ Supervisor, or Compliance (Laura Hendricks) who are each authorized to place, terminate or extend a temporary hold on behalf of the member pursuant to this Rule.

#### ****5.25.4.3 Record Retention****

Company shall retain records related to compliance with this Rule, which shall be readily available to FINRA, upon request. The retained records shall include records of: (1) request(s) for disbursement that may constitute financial exploitation of a Specified Adult and the resulting temporary hold; (2) the finding of a reasonable belief that financial exploitation has occurred, is occurring, has been attempted, or will be attempted underlying the decision to place a temporary hold on a disbursement; (3) the name and title of the Associated Person that authorized the temporary hold on a disbursement; (4) notification(s) to the relevant parties pursuant to paragraph this Rule; and (5) the internal review of the facts and circumstances pursuant to this Rule.

### 5.25.5 Registered Persons (RRs) Being A Customer's Beneficiary Or Holding A Position Of Trust *(05/25/22)*

RRs are limited from being named a beneficiary, executor or trustee, or having a power of attorney or similar position of trust for or on behalf of a customer. The RR is responsible for immediately notifying Compliance of any such potential designation. The notice requirement includes RRs who hold a beneficiary or position of trust status for an account transferring from a prior employer; the transferring RR must provide notice within 30 days of employment.

These limitations do **not** apply where the customer is a member of the registered person's "immediate family. In addition, a registered person who does not have customer accounts assigned to him/her is not subject to these requirements.

Exceptions to this limitation must be requested, in writing, from Compliance. The request must include the name(s) of the customer's account(s) and in what role the registered person will act (beneficiary, executor, trustee, *etc.*) as well as the following:

* length and type of relationship between the customer and the registered person
* the customer's age
* the size of any bequest relative to the size of the customer's estate
* any remuneration to be paid to the RR
* any customer mental or physical impairment that renders the customer unable to protect his or her own interests

Registered persons may **not** accept such a role without **prior** approval from Compliance. In addition, a registered person may not instruct or ask a customer to name another person, such as the registered person's spouse or child, to be a beneficiary of the customer's estate or to receive a bequest from that estate.

In the event a registered person unknowingly becomes the subject of these limitations (*e.g.,* notification of receiving a bequest, being named an executor, *etc.*), the registered person is obligated to decline the role or bequest unless written notice is provided to Compliance and approval is received.

### 5.26.6 Red Flags

Diminished capacity and elder abuse are two problems that emphasize the particular vulnerability of many older clients. Diminished mental capacity, such as Alzheimer’s disease and other forms of dementia, may impair a client’s ability to make appropriate decisions regarding his or her portfolio. Elder financial abuse occurs when a person exploits a position of trust or influence in order to gain power over a senior citizen’s assets. Below are some common “red flags” for diminished capacity and suspected elder abuse, as well as procedures for escalating these issues.

**RED FLAGS**:

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

Keep in mind this is not an all-inclusive list nor is one item alone indicative of the condition, however, these red flags are provided for assistance in noting developments that may occur with senior clients:

• Memory loss;

• Disorientation or confusion;

• Difficulty performing simple tasks;

• Difficulty speaking;

• Difficulty with abstract thinking;

• Misplacing items;

• Drastic mood swings;

• Changes in personality;

• Increased passivity; and

• Poor judgment.

For example, a client may repeat an order multiple times over several days without any apparent realization that he or she has already given you the order. Or, a client may appear disoriented or confused when you meet with him or her. If you notice such symptoms, your client may be suffering from diminished capacity.

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

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

Contact Compliance with questions about a proper course of action.

**Elder Abus**e: occurs when someone exploits a position of influence or trust over an elderly person to gain access to that person’s assets, funds or property. Be aware of these red flags for potential financial exploitation:

• The elder’s sudden reluctance to discuss financial matters. This includes signs of intimidation or reluctance to speak in the presence of a caregiver;

• Sudden, atypical, or unexplained withdrawals; drastic shifts in investment style; or other sudden changes to the elder’s financial situation;

• Abrupt changes in wills, trusts, or power of attorney;

• Changes in beneficiaries on insurance policies or IRAs;

• Client is concerned or confused about missing funds in his or her account;

• Unusual or first-time wire transfers, especially to foreign countries;

• The elder is fearful of eviction or nursing home placement if money is not given to a caretaker; and

• Elders who appear to be receiving insufficient care despite having money.

• Increasing lack of contact with and interest in the outside world; and

• The elder’s admission of financial or material exploitation or suspected exploitation.

Tactics may include:

* Cashing an elderly person’s checks without authorization or permission;
* Forging an older person’s signature;
* Misusing or stealing an older person’s money or possessions;
* Coercing or deceiving an older person into signing documents (for example, a contract or will); and
* Improperly using a conservatorship, guardianship, or power of attorney.

For example, a caretaker coerces an elderly client to transfer cash to him/her. The caretaker threatens to have the client committed to a nursing home if they refuse.

An elderly client grants power of attorney to her son. The son makes speculative investments – hoping to increase his inheritance but ignoring his mother’s need for current income.

An elderly client requests a large wire transfer to make a “good faith” payment to secure his winnings in a lottery.

### 5.25.7 Escalation Procedures

The Company strongly recommends Associated Persons at the account opening stage to encourage all clients to prepare for the future (power of attorney, guardianships or conservatorships, etc.). Contact the client’s emergency or Trusted Contact if deemed necessary. Inform the client that in addition to the SEC 17a-3 letters they will receive, to keep us informed of any changes to their circumstances.

However, in the course of the relationship with a client, if an Associated Person even *suspects* abuse or diminished capacity, it is enough reason to escalate these procedures:

• First, report any instances to both the designated supervisor **as well as** the Compliance Department.

• An incident report will be completed and documented in WinOps (as well as in the CRM, if desired, but not required);

• If determined by Morris Monroe or Compliance, the account may be restricted from any further recommendations in the account(s) and will be noted in WinOps as well as communicated to the Associated Person, the designated supervisor, and applicable backoffice personnel;

• Determine if an alternate contact is on file and whether that person(s) should be notified;

• The Compliance Department will be responsible for reporting any abuse to the proper authorities (Elder Abuse Hotline: 800-252-5400 or 512-834-3784).

* Determine if the Company should file the Texas State Securities Board’s Financial Exploitation Form (found at <https://www.ssb.texas.gov/sites/default/files/ReportOfFinancialExploitation_Form_Nov2017.pdf>. Although not required, the TSSB strongly encourages firms to do so.

### 5.25.8 Supervision

It is the responsibility of each designated principal to oversee the activities of their Associated Person’s senior investor activities, suitability, and product recommendations. However, in the event of any escalation issue, it will be the responsibility of Morris Monroe or Compliance to ensure that the proper procedures are followed. In addition, any incidences will be recorded in WinOps and in a central file location for the purposes of the Company’s books and records maintenance. A review of any reported incidences will be documented in the internal examination as well.

In addition,

### 5.25.9 Training

As part of the annual compliance meeting, a review of the Company’s procedures will be conducted and an opportunity for Associated Persons and staff to ask questions and discuss any related client examples that may be applicable.

## 5.26 Pension and Retirement Plans

Pension and retirement accounts are regulated under the Employee Retirement and Income Security Act of 1974 (ERISA). Differences in plans include limits on contributions, tax deductibility, costs, types of plan sponsors (employer or otherwise), and who may participate. ERISA is administered by the Department of Labor (DOL) which issues rules, interpretations, and exemptions which includes PTE 2020-02. Key elements include:

* Who is a fiduciary subject to related requirements; and
* Exemptions from “prohibited transactions” which are considered self-dealing and not allowed in these accounts.

### 5.26.1 Fiduciary Status

The DOL has outlined a "five-prong" test to identify who is a fiduciary. All five parts of the test must be satisfied to meet the fiduciary test. Under the DOL's five-part test for advice to constitute "investment advice," a financial institution or investment professional must:

1. Render advice to the plan, plan fiduciary, or IRA owner as to the value of securities or other property, or make recommendations as to the advisability of investing in, purchasing or selling securities or other property,
2. On a regular basis,
3. Pursuant to a mutual agreement, arrangement, or understanding with the plan, plan fiduciary, or IRA owner, that
4. The advice will serve as a primary basis for investment decisions with respect to plan or IRA assets, and that
5. The advice will be individualized based on the particular needs of the plan or IRA.

The three consequences to a financial institution or investment professional that meets this five-part test **and** receives a fee or other compensation (including traditional brokerage commissions), direct or indirect, is that the institution or professional:

* is an "investment advice fiduciary" under ERISA and the IRS Code
* is subject to fiduciary duties with respect to an employee benefit plan
* is forbidden from engaging in certain "prohibited transactions" involving plans, IRAs or annuities unless an exemption applies

### 5.26.2 Requirements

Requirements when acting as a fiduciary to pension/retirement/IRAs include the following.

* Provide disclosure acknowledging fiduciary status in writing
* Disclose the investment related services being provided and any material conflicts of interest in providing these services
* Adhere to "impartial conduct standards" which include:
  + Conduct a reasonable effort to investigate and evaluate investments, advice, and exercise sound judgment as knowledgeable and impartial professionals would (*i.e.,* their recommendations must be "prudent")
  + Act with undivided loyalty to Retirement Investors when making recommendations (in other words, they must never place their own interests ahead of the interests of the Retirement Investor, or subordinate the Retirement Investor's interests to their own)
  + Charge no more than reasonable compensation and comply with federal laws regarding "best execution"
  + Avoid making misleading statements about investment transactions and other relevant matters

Other requirements include:

* When there is no recommendation, the non-recommendation must be documented including an indication of "unsolicited."
* RRs who recommend that an investor roll over an IRA or qualified plan into another vehicle must justify and explain the benefits, expenses, and all conflicts of interest associated with the rollover, as well as reliable benchmarks for typical fees. See the section *Rollovers* later in this section.
* Policies and procedures must include disclosing and/or mitigating of conflicts of interest (also covered by Regulation Best Interest and the Form CRS).
* Company will include an annual retrospective compliance review.

### 5.26.3 PTE 2020-02 Exemption *(eff 02/16/21)*

Investment Professionals may receive compensation when acting as a fiduciary and relying on this exemption to continue receiving brokerage compensation. PTE 2020-02 is summarized as follows:

* Financial institutions and investment professionals (and affiliates and related entities) can engage in transactions for which they provide fiduciary investment advice in which they receive reasonable compensation including in a transaction that includes a rollover from an ERISA Plan to an IRA.
* Financial Institutions and Investment Professionals can provide fiduciary investment advice with respect to the purchase or sale of an asset in a riskless principal transaction or a Covered Principal Transaction (which is defined as (i) a sale to a Plan of certain debt securities or a principal transaction covered under another exemption; or (ii) a purchase from a Plan of securities or investment property).
* This Exemption does not apply to the following situations:
  + Plans for which the investment advice fiduciary, or an affiliate, is (i) employer of employees covered by the Plan or a named fiduciary of the Plan; or (ii) plan administrator selected by a fiduciary that is not independent of investment advice fiduciary;
  + Roboadvice (investment advice generated solely by an interactive web site with computer-based models or applications and without any personal interaction); or
  + Discretionary fiduciary investment arrangements.
* Investment Professionals and Financial Institutions must comply with (i) the Impartial Conduct Standards; (ii) Disclosure Requirements; (iii) Policies and Procedures Requirements; and (iv) the Retrospective Review Requirement.
* A Financial Institution or Investment Professional is ineligible for the exemption for 10 years following:
  + any conviction of a crime described in ERISA section 411 arising out of providing investment advice to Retirement Investors (unless the DOL grants a petition that allows the Financial Institution to continue to use the exemption); or
  + receipt of ineligibility issued by the DOL for engaging in systematic pattern or practice of violating the conditions of this exemption.
* There is a one-year period for Financial Institutions in which the exemption may be relied upon after becoming ineligible, but this does not apply to an Investment Professional.

**Impartial Conduct Standards**  
Impartial Conduct Standards are consumer protection standards put in place by the DOL that are designed to ensure that investment advisers (and other financial institutions) adhere to fiduciary norms and basic standards of fair dealing. When relying upon PTE 2020-02 Exemption, Company will meet each of the following Impartial Conduct Standards:

1. Best Interest. Give advice that is in the "best interest" of the retirement plan clients. To meet this standard, the investment advice will:
   * reflect the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use;
   * provide the advice based on the investment objectives, risk tolerance, financial circumstances, and needs of the retirement plan client, and
   * not place the financial or other interests of Company or any affiliate, related entity, or other party ahead of the interests of the retirement plan client or subordinate the retirement plan client's interests to their own.
2. Reasonable Compensation. Compensation received from Company or its affiliates, directly or indirectly, for its services will not exceed reasonable compensation within the meaning of section 408(b)(2) of ERISA and section 4975(d)(2) of the Internal Revenue Code of 1986 (Code). When determining the reasonableness of compensation, Company will consider, among other things, the market price of service(s) provided and/or the underlying asset(s), the scope of monitoring, and the complexity of the product.

|  |
| --- |
| Section 408(b)(2) of ERISA and section 4975(d)(2) of the Internal Revenue Code of 1986 require that compensation not be excessive, as measured by the market value of the particular services, rights, and benefits the investment professional and financial institution are delivering to the retirement plan client. |

1. Best Execution. If the services to the retirement plan client includes brokerage, Company will seek to obtain the best execution of the investment transaction reasonably available under the circumstances, as required by the federal securities laws or rely on the brokerage firm’s best execution practices.
2. Disclosure. Any statements made by Company to the retirement plan client about the recommended transaction and other relevant matters will not be materially misleading at the time they are made.

**PTE 2020-02 Exemption Disclosure**

Prior to engaging in a transaction in reliance on the final exemption, Company will make the following disclosures to the retirement plan client:

1. Acknowledgement of Fiduciary Status. Company will provide a written acknowledgment to its retirement plan clients that it and its investment professionals are fiduciaries under ERISA and the Internal Revenue Code, as applicable, with respect to any fiduciary investment advice it provides to its retirement plan clients.
2. Description of the Scope of Services and Any Material Conflicts of Interest. Company will provide to its retirement plan clients a written description of the services to be provided and its investment professional's material conflicts of interest that is accurate and not misleading in all material respects.
3. Rollover Transactions Only. Prior to engaging in a rollover transaction for a retirement plan client, Company will provide documentation to such client specifying the reasons for the rollover recommendation. In addition, Company will document the specific reasons why a recommendation to roll over assets from a retirement plan to another plan or IRA, from an IRA to a plan, from an IRA to another IRA, or from one type of account to another (*e.g.,* from a commission-based account to a fee-based account) would be in the best interest of the retirement plan client – *eff December 2020*.

**PTE 2020-02 Retrospective Review**

When relying upon PTE 2020-02 Exemption, Company periodically will perform a retrospective review as follows:

1. Annual Review. Company at least annually will conduct a retrospective review reasonably designed to assist it in detecting and preventing violations of, and achieving compliance with, the Impartial Conduct Standards and other procedures governing compliance with the PTE 2020-02 exemption.
2. Written Report. The methodology and results of the retrospective review will be provided to a senior executive officer of Company.
3. Senior Executive Officer Certification. Company's CCO, or CEO or President, will certify annually:
   * The officer has reviewed the report of the retrospective review;
   * Company has in place policies and procedures prudently designed to achieve compliance with the conditions of the final exemption; and
   * Company has a prudent process in place to modify such policies and procedures as business, regulatory and legislative changes and events dictate, and to test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with the conditions of the final exemption.
4. Six-Month Deadline. The review, report and certification required by these procedures will be completed no later than six months following the end of the period covered by the review.

**PTE 2020-02 Self Correction**

When relying upon PTE 2020-02 Exemption, Company may be in the position to self-correct a violation of the Exemption, which is permissible by PTE 2020-02. To self-correct, Company must:

1. determine that the violation did not result in investment loss, or it must make the retirement plan client whole for any such loss;
2. correct the violation and notify the DOL within thirty days of correction;
3. complete the correction no later than ninety days after Company learned of (or reasonably should have learned of) the violation; and
4. notify the persons responsible for conducting the retrospective review during the applicable review cycle so the correction can be included in the report.

**PTE 2020-02 Recordkeeping**

When relying upon PTE 2020-02 Exemption, Company will maintain for a period of six years, records demonstrating compliance with the exemption, and it must make such records available (to the extent permitted by law), to any authorized employee of the U.S. Department of Labor or U.S. Department of Treasury.

### 5.26.4 General Features/Types

The following sections provide general explanations of various types of common retirement accounts. Some of the general guidelines that apply to retirement plan sales include the following. Specific plans should be consulted for limitations and requirements.

* Since annuities and municipal securities, which generally are not suitable for retirement plans since plans, already provide tax benefits further suitability factors must be taken into consideration.
* Consider the cost of investments recommended for retirement plans vs. the benefits.
* Consider the customer's risk profile and investment objectives when considering securities for recommendation for a retirement plan.
* Consider surrender or exit fees or tax penalties if they apply to the potential transaction.
* Understand the type of plans being discussed or recommended.
* Encourage investors to contact their tax counsel to resolve any tax-related questions.

IRAs are established by individuals through a plan sponsor; following are key features:

* Annual contributions are limited by law
* Older investors have higher contribution limits under a "catch-up" provision
* Contributions may or may not be tax deductible, depending on the IRA owner's income level
* Contributions are from earned income (other than contributions to a non-working spouse's IRA)
* Certain types of investments such as precious metals are not permitted in an IRA
* Early withdrawals (prior to age 59 1/2) may result in tax penalties
* Owners of traditional IRAs are required to begin withdrawing by the year following the year the owner turns 72.

There are multiple types of IRAs including:

* Traditional IRAs; contributions may or may not be tax deductible depending on the IRA owner's income
* Roth IRA:
  + all contributions are in after-tax dollars
  + withdrawals are not taxed at the time of withdrawal if the IRA owner is at least 59 1/2 years old and the Roth IRA has been open 5 years or longer
  + some high wage earners are not eligible to open Roth IRAs
  + no mandatory withdrawals after age 72
* Individual retirement annuity; a traditional or Roth IRA set up with a life insurance company through the purchase of a special annuity contract
* Simplified Employee Pension (SEP-IRA); a traditional IRA set up by an employer for employees; limitations on contributions apply
* Spousal IRA; traditional or Roth IRA funded by a married taxpayer in the name of a spouse (who has limited earnings)
* Rollover IRA: funded with money that is already in a qualified retirement plan; allows moving the money without owing any tax at the time of the rollover (assuming the requirements for a rollover are met)

### 5.26.5 IRA/Rollovers

Company and its RRs have responsibilities when recommending a rollover or transfer of assets in an employer-sponsored retirement plan to an IRA and when marketing IRAs and associated services. Company RRs must discuss with participants considering a rollover with the Company as the broker/dealer the available options. A plan participant leaving an employer has typically four options (which may include a combination of options):

* Leave the money at the employer's plan, if permitted
* Roll over assets to a new employer's plan, if available and permitted
* Roll over to an IRA
* Cash out the account value

Recommendations to open an IRA or rollover workplace retirement plan assets into an IRA rather than keeping assets in a previous employer's workplace retirement plan (or rolling over assets to a new employer's workplace retirement plan) are subject to Regulation Best Interest which identifies many of the following considerations and adds as considerations holdings of employer stock and any special features of the existing account:

* Investment options may be broader in an IRA, but the customer may be satisfied with options under an employer plan.
* Fees and expenses may be higher for an IRA; an employer may pay fees and expenses in its plan; IRA fees may include administrative, account set-up and custodial fees.
* Services may differ between employer plans and various IRAs; such services include planning tools, telephone help lines, workshops, educational material, *etc.*
* Penalty-free withdrawals are available from an employer plan to an employee leaving a job between age 55 and 59 1/2, and it may be easier to borrow from the plan. Such withdrawals may be made from an IRA only after the investor reaches the age of 59 1/2.
* Unlimited protection from creditors and legal judgments is available to plan assets under federal law. IRA assets are protected in bankruptcy only; state laws vary in protecting IRAs in lawsuits.
* Required minimum distributions apply to individuals reaching the age 72 for both plans and IRAs. However, if the individual continues working past 72, minimum distributions from the current employer's plans are delayed past 72.
* Appreciated employee stock in a plan will be subject to negative tax consequences of taxation at ordinary income tax rates vs. long term capital gains if rolled into an IRA. A balancing factor is if the employee is overly concentrated in the employer stock and is unable to reduce exposure in the plan.
* IRAs cannot be promoted as "no-fees" since the term could mislead investors who typically pay fees in some way to maintain an account. For example, the cost of a "no-fee" account may be subject to higher commissions instead of highlighted as a separate charge. This promotional strategy could attract investors into a rollover that may ultimately be costlier than staying in an employer plan.
* RRs may not infer that the customer's only choice or sound option is rolling funds to an IRA through the Company.

RRs have the obligation to consider compliance with Regulation Best Interest and the suitability of any recommended rollover considering the above factors and others that may apply to the customer and the customer's investment objectives, tax situation, and finances. The use of either Company’s IRA R/O Disclosure form or custodial applicable forms may be used to document delivery of such information.

### 5.26.6 Employee Sponsored Plans

Employers may offer different types of plans including traditional pension and profit-sharing plans that are funded entirely by the employer. All eligible employees participate, and employer contributions are above and beyond the employee's salary. This section describes other types of employer-sponsored plans that give eligible employees the opportunity to put a portion of current income into a tax-deferred investment account. Participation may be voluntary or mandatory, and employers may make matching contributions.

RR advice is generally limited to choosing the custodian (in which Company has a selling agreement) and the allocation of investments.

The following sections provide a general explanation of these various plans.

**401k Plans**

401K Plans generally include the following features:

* Established by corporations
* Permit their employees to make contributions through payroll deductions from pre-tax income [traditional 401(k) plans]; tax is applied when withdrawals are taken
* Roth 401(k) plans permit employees to make contributions through payroll from after-tax dollars; there is no tax on withdrawals made after age 59 1/2 and if the Roth 401(k) has been open 5 years or longer
* Both traditional and Roth 401(k) plans can be rolled over to an IRA (or a new employer's plan, if the plan permits) if the investor leaves the company
* No mandatory withdrawals for Roth 401(k) plans; mandatory scheduled withdrawals apply to traditional 401(k) plans.

**403(b) Plans**

A 403(b) plan is a salary reduction plan offered by non-profit, tax-exempt employers such as schools and colleges, hospitals, and foundations. Individual accounts in a 403(b) plan invest in two categories of investments:

* An annuity contract provided through an insurance company (fixed or variable)
* Mutual funds

Features include:

* Individuals cannot establish 403(b) accounts; only employers may set up accounts
* For non-Roth plans:
  + Employees make pre-tax contributions and employers sometimes match contributions
  + Tax on contributions and earnings and gains on investments are paid when the investor begins withdrawing funds
  + Mandatory withdrawals after age 72
* If the plan is a Roth contribution plan, tax is paid on contributions to the plan but withdrawals are not taxed; no mandatory withdrawals
* Some 403(b) plans impose steep surrender charges

**457 Plans**

These plans are offered by a state or local government or a non-profit organization. A 457 plan is a deferred compensation plan similar to 401(k) or 403(b) plans.

* Pre-tax income is contributed
* No tax on contributions; withdrawals are subject to tax
* Technically the portion of salary contributed to the plan is not owned by the employee; the plan sponsor owns all of the 457 plan assets which are held in trust for the employee in an account set up in the employee's name
* Mandatory withdrawals after age 72
* No early withdrawal tax penalties if funds are paid to the employee when leaving the job prior to reaching age 59 1/2; withdrawal is subject to normal income tax
* May be rolled over to an IRA or a new employer's plan to retain tax-deferred status

**SIMPLE Plans (Savings Incentive Match Plans for Employees)**

These plans are:

* Offered by small companies with 100 or fewer employees who earn at least $5,000 each during the year
* Less complicated to set up and administer than 401(k) or 403(b) plans
* Two types: SIMPLE IRA and SIMPLE 401(k), both with same contribution limits and catch-up contributions for people 50 or older
* Employer must contribute to the plan in one of two ways, a fixed contribution or a matching contribution
* Account must be open for 2 years before the employee can move the money or take it out; early withdrawal is subject to significant tax penalties

### 5.26.7 Coverdell Education Savings Accounts

A Coverdell Education Savings Account (ESA) is an account created as an incentive to help parents and students save for education expenses. An alternative is the 529 Savings Plan which is included in the *MUNICIPAL TRANSACTIONS* chapter in the section *Municipal Funds*. For more information, refer to the IRS site for plan sponsors; and the customer's tax adviser.

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

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

The following compares some features of Coverdell and 529 plans.

|  |  |  |
| --- | --- | --- |
| **Feature** | **Coverdell Account** | **529 Plan** |
| Contribution limits | $2000 annual | No restrictions up to maximum lifetime contribution |
| Allowable investments | Allows almost all types of investments including stocks, bonds, and mutual funds (parallels rules for IRAs) | Limited to state-run allocation programs |
| Distribution of assets | Must be disbursed on qualified education expenses by the beneficiary's 30th birthday or given to another family member below the age of 30 | No age limit |
|  | Federal tax-free if used for qualified education expenses; some states offer tax benefits | Same |
|  | Income tax and penalties may apply for ineligible distributions | Same |
| Qualified education | Elementary and secondary schools; higher education | Does not allow elementary and secondary education expenses |
| Income limits affecting contributions | Limits on modified adjusted gross income at certain levels | No limits |
| Ownership of assets | Owned by person establishing the account, not the child | Same |
| Designation of new beneficiary | Must be eligible family member of the previous beneficiary to avoid taxes or penalties | Same |

## 5.27 Electronic Delivery and Signatures

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

### 5.27.1 Electronic Delivery to Customers

If Company electronically transmits certain documents to customers (other than incidental correspondence or account documents to complete), the following will apply:

* The customer’s consent will be obtained.
* Notice will be provided to customers that the information is available electronically.
* Customers who are provided electronic delivery have access to the information substantially equivalent to the paper form. Customers may also have ready access to the electronic documents through downloading or access online.
* Company will maintain any customer’s consent for electronic delivery.

### 5.27.2 Electronic Signatures

Electronic signatures may be used by designated supervisors to indicate approval/review of new accounts, orders, and other ongoing supervisory reviews. Electronic signatures may also be used to capture customer signatures if an electronic signature pad is used that meets SEC regulations or other industry accepted and secure practices (i.e. DocuSign).

### 5.27.3 FINRA Access

As required by FINRA, FINRA and its staff will have access to downloading and printing of documents, when requested, which will have appropriate references for ready access.

## 5.28 Customer Complaints

"Complaint" is defined as any written statement by a customer or a person acting on behalf of a customer alleging a grievance involving the activities of a person under the broker-dealer's control in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer. Each office where Company regularly conducts business (handles funds or securities, solicits or accepts customer orders) will maintain a separate file of all written customer complaints. Records of options complaints will be maintained in a separate file, if applicable, (or are separately identifiable) in Compliance and in the office that is the subject of the complaint.

With respect to customer complaints, any complaint directed to or uncovered by Morris Monroe will be entered as a matter of record and will be kept in the corporate office. Morris Monroe or Compliance shall be responsible for maintaining a record of all customer complaints and the disposition of same. Morris Monroe will have the absolute right to determine the disposition of all customer complaints. Company will file any quarterly report of complaints with FINRA through their electronic filing system.

Further, it shall be the responsibility of Morris Monroe or Compliance to timely report all customer complaint information and other specified events, electronically, to the FINRA/CRD in accordance with FINRA Rule 4530 in addition to any applicable Form BD and/or U-4 or U-5 filing/amendment. In this regard, on behalf of the Company, Morris Monroe or Compliance shall promptly report within 30 calendar days of when the Company knows if ever the Company and or an Associated Person are:

1. Found to have violated any provision of any securities, insurance, commodities, financial or investment related laws, regulations, any rules or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization, or business or professional organization;

2. Is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery?

3. Is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory or self-regulatory body alleging the violation of any provision of the Securities Exchange Act of 1934, or of any other federal or state 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 regulatory or self-regulatory organization;

4. Is denied registration or is expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry regulatory or self-regulatory organization or is denied membership or continued membership in any such self- regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization is;

5. Indicted, or convicted of, or pleads guilty to, or pleads no contest to, any criminal offense (other than traffic violations);

6. 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 which was suspended, expelled or had its registration denied or revoked by any agency, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution which was convicted of or pleaded no contest to, any felony or misdemeanor;

7. A defendant or respondent in any securities or commodities-related civil litigation or arbitration which has been disposed of by judgment, award or settlement for an amount exceeding $15,000. However, when the Company is the defendant or respondent, then the reporting to the FINRA shall be required only when such judgment, award or settlement is for an amount exceeding $25,000;

8. The subject of any claim for damages by a customer, broker, or dealer which is settled for an amount exceeding $15,000. However, when the claim for damages is against the Company, then the reporting to the FINRA shall be required only when such claim is settled for an amount exceeding $25,000;

9. 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 Securities Exchange Act of 1934, and the member knows or should have known of the association. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification.

10. The subject of any disciplinary action taken by the member against any person associated with the member involving suspension, termination, the withholding of commissions or imposition of fines in excess of $2,500, or otherwise disciplined in any manner which would have significant limitation on the individual's activities on a temporary or permanent basis.

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

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

In keeping with the requirements of FINRA Rule 4530, each Associated Person of the Company shall report within 48 hours to the Company the existence of any of the conditions set forth above. In turn, the Company shall report to the FINRA the existence of any of the conditions set forth above within 30 business days. In addition, any event filing required for Form BD and or Form U4 or U-5 must be immediately compared with the events above to determine if a 4530 disclosure filing must also be submitted in order to avoid any missed or untimely filings.

The Company, through Morris Monroe or Laura Hendricks shall also report electronically to the FINRA statistical and summary information regarding customer complaints by the 15th day of the month following the calendar quarter in which the customer complaint was received by the Company. For purposes of this section, "customer" shall include any person other than a broker or dealer with whom the Company has engaged, or has sought to engage, in securities activities, and "complaint" includes any written grievance by a customer involving the Company or a person associated with the Company. Customer complaint records will be maintained for four years.

### 5.28.1 Processing Customer Complaints

1. Make additional copies of customer complaint and distribute and or file as follows:

- One copy to registered representative, if not already received first by him/her;

- One copy to Morris Monroe or Laura Hendricks, to be filed in customer complaint file together with any written reply from registered representative.

- One copy to be filed in customer's account file together with copy of any written reply from registered representative or Company.

1. Complaints need to be addressed immediately and any reply should be attached to file copies.
2. All applicable customer complaints should be reported to FINRA by Laura Hendricks via internet FINRA Rule 4530 program by the 15th day of the month following quarter end.
3. Maintain copies of complaint and related correspondence in the branch file for complaints (and central location at home office) and retain for 4 years.
4. Maintain a central complaint log in electronic format which includes name, address, account number, date complaint received, Associated Persons identified in the complaint, description of the nature of complaint, and any disposition. And pursuant to MSRB G-8, retain any applicable records for 6 years with 2 years in a readily accessible location.
5. Upon receipt of a Municipal related complaint, Compliance will send to the customer a copy of the investor brochure designated by the MSRB and will record the date when the investor brochure was provided.

## 5.29 Disclosures

### 5.29.1 FINRA Rule 2262 – Control Relationship *(eff 12/14/09)*

If Company is controlled by, controlling, or under common control with, the issuer of any security, Company shall, before entering into any contract with or for a customer for the purchase or sale of such security, disclose to such customer the existence of such control, and if such disclosure is not made in writing, it shall be supplemented by the giving or sending of written disclosure at or before the completion of the transaction. In the case of any private placement, such disclosure shall be in the form of the offering memorandum given to customer.

### 5.29.2 FINRA Rule 2264. Margin Disclosure Statement

It shall be the responsibility of Morris Monroe to ensure that no margin account shall be opened for any non-institutional customer unless, prior to or at the time of opening the account, the Company has furnished to the customer, individually, in writing or electronically, the clearing company’s Margin Disclosure Statement. The Margin Disclosure Statement is contained in the HTS Customer Information Brochure, which is given to all new HTS accounts. The Company, through its clearing firm, shall also provide the Margin Disclosure Statement on an annual basis via customer statements. Copy of said statement will be maintained as part of Company’s records and initialed as evidence of review.

### 5.29.3 FINRA Rule 2266 - SIPC Disclosure

It shall be the responsibility of Morris Monroe or Compliance to ensure all new customers shall receive, in writing or electronically, at the time of opening an account, information about SIPC, including the SIPC brochure by contacting SIPC and providing their website at [www.sipc.org](http://www.sipc.org) and telephone number (202) 371-8300. Such information will be provided via the New Account Form. In addition, the Company will provide such information in writing or electronically at least once a year (through its clearing firm). Effective date for the rule is November 6, 2007.

Retail Communication must include a notation that Company is a member of SIPC, *e.g.,* "Member SIPC." When SIPC is referenced in Company's web site, the site will include a hyperlink to the SIPC web site.

### 5.29.4 FINRA Rule 2267 - Investor Education and Protection *(eff 8/17/09)*

Company will provide new customers with FINRA website information which includes a Customer Guide to FINRA and Investor Services Brochure and registration and other information on Company and brokers (which can also be accessed by calling 800-289-9999 or [www.finra.org/brokercheck](http://www.finra.org/brokercheck)) through Company’s New Account form and ongoing on its website. The offer of the information to customers annually will be conducted through Company’s clearing firm (typically in the September customer statement).

### 5.29.5 FINRA Rule 2269 - Participation or Interest in Primary or Secondary Distribution *(eff 12/14/09)*

Company, acting as either a broker or dealer for a customer or for both such customer and some other person, and who receives or has promise of receiving a fee from a customer for advising such customer with respect to securities, shall, at or before the completion of any transaction for or with such customer in any security in the primary or secondary distribution of which Company is participating or is otherwise financially interested, give such customer written notification of the existence of such participation or interest.

### 5.29.6 FINRA Rule 2261 – Disclosure of Financial Condition to Customers *(eff 6/14/10)*

Company shall make available to inspection by any bona fide regular customer, upon request, the information relative to Company's financial condition as disclosed in its most recent balance sheet prepared either in accordance with Company's usual practice or as required by any state or federal securities laws, or any rule or regulation thereunder. In lieu of making such balance sheet available to inspection, Company may deliver the balance sheet to the requesting customer in paper or electronic form; provided that, with respect to electronic delivery, the customer consents to receive the balance sheet in electronic form. In addition, if Company is a party to an open transaction or who has on deposit cash or securities of another member, Company shall deliver upon written request of the other member, in paper or electronic form, a statement of its financial condition as disclosed in its most recent balance sheet prepared either in accordance with Company's usual practice or as required by any state or federal securities laws, or any rule or regulation thereunder and may deliver in electronic form without consent. "Customer" shall mean any person who, in the regular course of Company's business, has cash or securities with Company as the broker/dealer.

### 5.29.7 ERISA Plans

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

A "fiduciary" is generally anyone with discretionary authority or control over the management of a plan, the administration of the plan, or the disposition of plan assets. Fiduciaries must comply with certain statutory duties which include prudence and diversification of investments and the duty to act in accordance with the governing instruments of the plan. A person or entity providing services to an ERISA plan is considered a "party-in-interest" to the plan. This status generally applies to broker-dealers providing traditional brokerage services to ERISA plans. Company's role in relation to ERISA plan accounts generally is as a party-in-interest unless Company contracts to provide investment management services or other services where Company would become a fiduciary to an ERISA plan.

**Permissible Transactions**

Allowable transactions are subject to the "Prudent Investor Rule" and are governed by ERISA (and related Department of Labor and IRS rulings), the investment policy of the ERISA plan, and trading guidelines in a managed account program or other trading program if such a program is used. Some types of transactions (such as margin or certain option transactions) are associated with added risk, and it may be necessary for Compliance to review the plan to determine whether the type of transaction is permissible.

**Prohibited Transactions**

Federal laws prohibit plan assets from being used by a fiduciary for certain transactions (known as "prohibited transactions"). Fiduciaries are prohibited from dealing in plan assets for their own benefit or for the benefit of a third party with whom the fiduciary is affiliated. The Department of Labor (and other government agencies) has issued exemptions from the prohibited transaction rules which allow plans and broker-dealers to engage in some but not all types of securities transactions. The range of permissible transactions varies depending on whether the broker-dealer is a fiduciary to the plan.

**General Requirements When Dealing with ERISA Plans**

Because of substantial legal liability, RRs are not permitted to become fiduciaries when dealing with ERISA accounts (unless Company has a specific program designed to meet legal requirements in offering those services). The following summarizes requirements and limitations:

* RRs may not accept responsibilities regarding administration of a plan (other than following instructions for contributions, distributions and investments from authorized persons acting on behalf of the plan).
* RRs may not be named trustees to plans (unless specifically authorized by Compliance).
* Recommendations to ERISA plans must be consistent with investment policies of the plans.
* Trading on margin does not generally occur in ERISA accounts; Compliance approval is required prior to engaging in margin transactions in an ERISA account.

#### Disclosures to Plans

Under ERISA, "covered service providers" are required to provide fee disclosures to covered plans to enable the plan fiduciary to make an informed decision about the reasonableness of fees as required under ERISA Section 404(a)(1). Company's obligation to provide disclosures depends on Company's role in dealing with a covered plan. This section provides a general explanation of the requirements.

**Covered plan:** An employee pension benefit plan or a pension plan under ERISA

3(2) (A), including:

* Defined contribution plans
* Defined benefit plans
* ERISA 403(b) arrangements

**Covered service provider:** A service provider that enters into a contract or arrangement with the covered plan and expects **$1,000** or more in direct or indirect compensation that is received in connection with providing services defined in Section 408(b)(2) including:

* Services as a fiduciary or investment adviser
* Certain recordkeeping or brokerage services
* Other services for indirect compensation (accounting, auditing, banking, consulting, securities or other investment brokerage and other services)

#### Required Disclosures

Disclosures include:

* Description of services;
* If applicable, that the services are provided in the role of fiduciary;
* Compensation, including:
  + Description of all direct compensation either in aggregate or by service to be received;
  + Indirect compensation expected to be received;
  + Description that compensation will be paid among related parties including identification of payers and recipients of compensation; and
  + Description of any compensation to be received in connection with termination of the contract or arrangement and how any prepaid amounts will be calculated and refunded upon termination.
* Recordkeeping services, if applicable, including direct and indirect compensation related to such services or, if not explicitly compensated, a reasonable and good faith estimate of the cost to the covered plan of such services;
* Manner of receipt of the compensation;
* Fiduciary services provided and related compensation;
* Recordkeeping and brokerage services with respect to each designated investment alternative for which recordkeeping or brokerage services are provided; and
* If Company provides certain investment-related information, including performance information, to participants, it will be presented in a comparative chart format to enable participants to make an informed decision when managing their accounts. Such disclosures will comply with both ERISA rules and other SEC and FINRA requirements related to investment companies and communications with the public.

#### Timing of Disclosures

* Required disclosures must be provided reasonably in advance of the date the contract or arrangement is entered into and extended or renewed.
* Changes must be provided as soon as practicable but no later than 60 days from the date on which the covered service provider is informed of the change.
* In the event of an error in a disclosure, the covered service provider must correct the information as soon as practicable but no later than 30 days after knowing of the error or omission.
* Requests for other compensation information from the fiduciary or covered plan administrator must be provided within 30 days following receipt of a written request.

### Brokercheck Disclosure

Pursuant to FINRA Rule 2210 and effective June 6, 2016, Company website must contain a hyperlink to FINRA’s Brokercheck at [www.brokercheck.finra.org](http://www.brokercheck.finra.org) on the home page and on any RR profile pages. Company uses a global footer to meet that requirement that will appear on every page of its website. Company will ensure hyperlinks are added and maintained as part of its annual review.

### 5.29.9 Sweep Programs

Through Company’s clearing firm’s Information Brochure, customers will receive disclosures regarding their free credit balances and transfers to a sweep program and will also be included in their quarterly statements from the clearing firm. This includes:

* the nature of sweep arrangements and potential alternatives
* the distinction between the clearing firm and banks involved in CMAs
* limitations on FDIC insurance
* the time it would take customers to access their cash

In addition, Company and any of its Associated Persons may not imply that that a brokerage account is the same or similar to a “checking or savings account at a bank, nor imply that brokerage accounts are a bank deposit account insured by the FDIC.

## 5.30 Accounts for Minors

UTMA/UGMA accounts are custodial accounts that allow for the transfer of funds, securities, and other assets to minors without the need for a formal trust. UGMA and UTMA are model laws developed and approved by the Uniform Law Commission for application by states.

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

* The donor names a custodian and donates assets to the account;
* Only one custodian is permitted for each account;
* Custodians generally may not delegate authority to another person;
* Only one minor may be named in each account;
* Margin transactions are not permitted;
* Gifts to minors are irrevocable, *i.e.*, the custodian may not direct distribution of assets from the account except for the benefit of the minor;
* The minor's social security number must be used when opening the account;
* Minors may not be a party to a joint account, investment club, or partnership;
* The custodianship generally terminates when the beneficiary reaches the age of majority (or other alternative age in state statutes or if the beneficiary dies);
* Some states permit extending custodianship to a higher age; the beneficiary should be notified of his or her right to compel distribution of assets upon reaching a specified age; and

Custodian, Company, and the RR should be aware when a custodianship is terminated and assets are to be distributed which may include flagging custodianship accounts to identify termination and notifying RRs to notify the custodian's discontinuing authority (and that they are available to assist with any instructions for distribution of the assets or opening a new, individual account for the new, majority age individual).

The custodian manages the account assets including executing transactions and withdrawing or transferring funds for the benefit of the beneficiary (the minor).

## 5.31 Death of Accountholder

Upon notice of an individual account holder's death, Company shall ensure only closing or Sell transactions may be entered, any open orders are cancelled and any further trading in the account blocked until necessary documents are received and legal distribution has been determined. Joint accounts and other accounts where the deceased person is a joint owner with others may be subject to certain distribution requirements.

When a customer dies, Associated Persons should:

* Immediately notify home office and branch Operations;
* Not accept any orders or distribute funds or securities; and
* Cancel any open orders.

Typically, the account should be denoted as in the name of a "DECEASED" and further activity suspended until Company is in receipt of a death certificate or other legal notification. These steps are taken so as to ensure the preservation of assets for any estate and to limit Company's exposure in any estate litigation. Thereafter, the name of the account is generally changed from that of the deceased into one reflecting the "ESTATE OF . . ." such alteration may require the production of various court orders or letters testamentary, as the circumstances may dictate.

In the absence of legal documentation and authorization from Company, Associated Persons should not merely follow the instructions of a surviving spouse, sibling or any other individual claiming the right to control the deceased's assets. As is often the case, the assets of a deceased may be subject to a will contest or, in the absence of a valid will, the estate may require judicial intervention. Based upon years of dealing with the deceased, an Associated Person may wrongly believe there is only a single surviving child or spouse who will inherit the account; however, assumptions may be ill-informed.

Trades are reviewed by Operations and Compliance regularly. Correspondence is randomly reviewed by Compliance. And records for any closed accounts are maintained by Company for a period of six years subsequent to termination.

## 5.32 Closed Accounts

For Closed Accounts:

1. Enter Notes in the CRM if applicable;
2. Enter information in WinOps (Deleted, Closed Date, Reason in Custom Tab);
3. May also note in Excel file of closed accounts to pull and move to Closed files.
4. When file is pulled, move to Closed files (maintain for 6 years after closing) at which time the file may be purged securely (to shred).

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# 6. REGULATION S-P PROTECTION OF CUSTOMER INFORMATION;

# S-AM –Affiliate Marketing; and

# S-ID – Identity Theft Red Flag Rules

## 6.1 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisor |
| **Statutes** | * SEC Regulation S-P * SEC Regulation S-AM - Affiliates * SEC Regulation ID – Identity Theft/Red Flags |
| **Frequency** | * When accounts are opened - provide copy of Privacy Policy * As required - send notice of any revised Privacy Policy to all customers * As determined by the designated supervisor: training for employees * As necessary - establish procedures for protecting customer information and ensuring information is only shared when it is allowed * As necessary - when new technologies are adopted |
| **Actions** | * Send annual notice to customers unless Company meets certain conditions. * Send revised policy to customers. * Test internal computer systems periodically * Ensure agreements with third parties receiving customer information reflect the third-party firm's privacy policies and include a confidentiality agreement * Include maintaining confidentiality of customer information in employee training * If “eligibility information” will be received from affiliates, determine that Regulation S-AM requirements are satisfied * When new technologies involving customer information are adopted:   + Contact information officer to:     - Determine whether appropriate technological precautions have been taken to protect customer information     - Determine whether existing testing/audits will include the new technology and, if not, adjust testing program   + Review existing policies and procedures to determine if changes/additions are required   + Determine whether added training of employees is necessary and implement, if required * Issue passwords to authorized personnel. For terminated personnel, disable passwords for those no longer requiring access. Obtain office key(s). Change passwords to applicable sites known by all staff (i.e. Company website pw protected area). |
| **Records** | * Current Privacy Policy * Record of providing any annual or revised notice to all customers if applicable * Copies of signed agreements with third parties receiving customer information * Requirements for Regulation S-AM are satisfied if affiliate information is used for marketing * Records of periodic privacy audits or other reviews conducted of computer systems that retains customer information * Records of reviews of outsourced services involving the privacy of customer information * Records of review of new technology involving customer information |

## 6.2 Regulation S-P: Protection of Customer Information

Client information in the possession of a financial institution is governed by federal law and, in some cases state law. Company holds the protection of customer information as a The Gramm-Leach-Bliley Act (GLB) and Regulation S-P require financial institutions to provide a notice to each customer that describe its policies and practices regarding the disclosure to third parties of nonpublic personal information. In general, the privacy notice must describe a firm's policies and practices with respect to disclosing nonpublic personal information about a client to both affiliated and nonaffiliated third parties and provide a client a reasonable opportunity to opt out of the sharing of nonpublic personal information about the client with nonaffiliated third parties. As part of its privacy notice, the privacy rule requires broker/dealers to include specific items of information, such as the categories of nonpublic personal information that firms collect and the categories of third parties to which they may disclose the information.

In addition, Morris Monroe is the designated Information Security Officer and will be responsible for the implementation of Regulation S-P. Regulation S-P is built around an “opt-out” policy which means that as long as certain notices are given to consumers and customers, then the Company is permitted to share their clients’ financial information with its affiliated and non-affiliated third parties unless the consumers and customers opt out of the information sharing arrangement. Responsibility for ongoing supervision of privacy procedures will be maintained by the applicable principals of each office.

### 6.2.1 Definitions

**Consumer:**  An individual who obtains or has obtained a financial product or service from a financial institution.

**Customer:** A consumer who has developed a continuing relationship with a financial institution to provide products or services.

**Non-Public Information**: Information obtained that is not deemed to be “public information,” which is defined as information that may be obtained from three sources: federal, state or local government records; widely distributed media, or disclosures to the general public that are required to be made by federal, state, or local law.

### 6.2.2 Customer Notification

Company will provide notice to customers about its Privacy Policy. The notice is provided as follows:

* At the time an account is opened (included in Company’s New Account Form).
* On Company's website.
* Annually, unless Company meets the following two conditions:
  + Company does not disclose nonpublic information to third parties (*e.g.,* sharing in connection with marketing activities vs. sharing solely to service customer accounts), other than disclosure permitted under exemptions available under the Gramm-Leach-Bliley Act; and
  + There has been no change in policies regarding disclosing nonpublic personal information from the last notice sent to customers.

### 6.2.3 Privacy Notices

The Company will disclose details on information sharing arrangements. Specifically, the rule requires the Company to disclose:

* The categories of nonpublic personal information that it may collect;
* The categories of nonpublic personal information it may disclose;
* The categories of affiliates and nonaffiliated third parties to whom it discloses nonpublic personal information other than service providers and third parties that aid in fulfilling the service requested by a consumer;
* The company’s policies with respect to sharing information about former customers;
* The categories of information that are disclosed under agreements with third party service providers and joint marketers and the categories of third parties providing the services;
* A consumer’s right to opt out of the disclosure of nonpublic personal information to nonaffiliated third parties; and the Company’s policies and practices with respect to protecting the confidentiality, security, and integrity of nonpublic personal information. Essentially, consumers and customers must be given notice when information is going to be shared and then be given the opportunity to opt out of that sharing arrangement.

In certain circumstances, Regulation S-P permits the Company to use “short- form” initial notices for consumers with whom the Company does not have a customer relationship. The short-form notice must be accompanied by an opt-out notice and information on where the consumer may obtain additional information on Company’s privacy policies.

Under Regulation S-P, any information given by consumers or customers to the Company to obtain a product or service will generally be considered to be nonpublic financial information. In addition, any list, description, or other grouping of consumers and customers that is derived from this information also may be considered nonpublic information.

The Company may consider the information received to be publicly available (and therefore not subject to the restrictions of Regulation S-P) if the Company reasonably believes that the information is lawfully available from three sources: (1) federal, state, or local government records; (2) widely distributed media; or (3) disclosures to the general public that are required to be made by federal, state, or local law.

### 6.2.4 Information Sharing Arrangements

The Company may make Information Sharing Arrangements with its affiliates and with nonaffiliated third parties.

**Affiliates**: The Company may share consumers’ and customers’ information with its affiliates as long as that fact is disclosed in the privacy notices. Consumers and customers may not opt out of that information sharing arrangement.

**Nonaffiliated Third Parties**:If, the Company has an information sharing agreement with nonaffiliated third parties, then that fact must be disclosed, and consumers and customers may generally opt out of having their information shared under that agreement. The Graham Leach Bill does provide a series of exceptions that permit the Company to share information with nonaffiliated third parties and in which consumers and customers may not opt out of those sharing arrangements. These exceptions include, but are not limited to, arrangements with joint marketers and service providers. While consumers and customers may not opt out of these information sharing arrangements, these arrangements must be disclosed in the privacy statements.

### 6.2.5 Introducing and Clearing Brokers

With regard to the information sharing arrangements between introducing brokers and clearing brokers, the regulation considers introducing brokers and clearing brokers as each having an individual relationship with consumers and customers. Regulation S-P recognizes that either the introducing broker or the clearing broker could share nonpublic consumer or customer financial information with third parties outside of the introducing/clearing relationship. The regulation will, however, permit the introducing brokers and clearing brokers to send one joint privacy notice to consumers and customers as long as the introducing and clearing brokers’ privacy policies and notices are accurate for each institution.

### 6.2.6 Annual Delivery of Privacy Notices

Company, if applicable (does not meet the exemptions in Section 6.2.2 above), may deliver the annual privacy notice via correspondence to accounts if applicable (See Section 6.2.2). If so, such notice will typically be provided in the month of April. A copy of said correspondence and Privacy Notice will be initialed by the Principal and maintained as part of the Company’s records.

### 6.2.7 Protection of Systems and Customer Data

The Information Security Officer is responsible for establishing procedures regarding Company's computers and data maintained on computers, including the following:

* Limiting access to centralized physical data processing and computer sites to authorized personnel only
* Limiting data access to authorized personnel only
* Back-up of data files
* Disaster recovery plans

Associated Persons and employees are required to treat nonpublic personal information in a confidential manner. Questions about providing customer information should be referred to Compliance.

Access to nonpublic personal information must be limited by physical, electronic and procedural safeguards. Responsibilities and procedures include but are not limited to the following:

* + Should not leave completed applications and related information where others can read or copy them.
  + When not in the office or not using materials containing nonpublic personal information, such material must be kept in files and not accessible on desks (“clean desk” policy).
  + Company computers and systems shall only be accessed through secured logins and password that shall be issued upon employment to ensure only authorized users gain access. Firewalls and other security systems are utilized to protect internal systems and data from unauthorized intrusions.
  + Computers or other data-retaining equipment that retain customer information to be disposed of will be subject to clearing of hard drives and other repositories of data prior to disposal. If a computer will be reassigned to someone who is not authorized to view data stored on that computer, the hard drive will be cleared prior to reassignment. Flash drives and other portable data devices that will no longer be used or will be reassigned will be destroyed or cleared of all data prior to disposal or re-use.
  + Nonpublic personal information may only be used for business purposes with respect to the Company’s financial services relationships with the individual, such as new account forms, applications, or transactions requested by the individual.
  + Only employees with a business “need to know” should be given access to nonpublic personal information. Customer file area is to be locked and secure after business hours.
  + Nonpublic personal information about our customers may not be accessed out of curiosity, for anyone’s personal use or where there is no business relationship with the customer or have any business need to know the information.
  + Such information may be used to market additional products or services offered through the Company.
  + Generally such information should not be disclosed to anyone other than the customer, employees of the Company or other financial institutions in connection with the processing of products or services offered by the Company. Associated Persons are prohibited from sharing or releasing non-public personal information other than to authorized parties. This includes a prohibition against:

1. Sending internal reports or other information about Company customers to a non-affiliated third party (unless authorized);
2. Sending internal or other documents that include customer non-public information to Associated Person’s personal email addresses.

Some exceptions may be in the case of a minor, a customer’s incapacity or death to provide information to a guardian or trustee, or as permitted or required by law such as compliance with a subpoena or inquiry from a government agency or regulator.

* + The Company shall require all nonaffiliated organizations that come into contact with non-public confidential information (lawyers, accountants, printers, etc.) to conform to its privacy standards and will contractually obligate them to keep the provided information confidential and used as requested.
  + When documents containing non-public financial information are to be disposed, they shall be destroyed by shredding or some other secure manner, which can prevent readable copies from being used.
  + Requests for personal information will only be handled by Operations personnel who will verify requesters’ identification (by calling the Requester’s company to verify the nature of the request) PRIOR to divulging any information. In some instances, a written inquiry may be requested if concerned about the nature of the request and further due diligence performed to assess the legitimacy of the request. In addition, the applicable principal must be informed of the request through an email as a matter of record and to keep him/her apprised.
  + Due to advances in technology, the Company authorizes the use of laptops and remote connections to the server through a Remote Desktop Connection. However, due to the increased concern for the protection of customer information, the servers accessed by the Company and its related persons have encryption and/or firewall protections to help prevent the unauthorized access to customer information through the open-air waves. In addition, laptops used by related persons must have built in firewalls and other protection devices as well as updated antivirus software. Laptops and personal computers will be randomly reviewed by IT or Compliance at least annually with a log of review.
  + Employees who use laptops or other mobile devices for Company business are responsible for the security of the device and the information contained on it. Serious security breaches can occur if a device containing or capable of accessing confidential information is lost or stolen. Laptops and PCs must be set to time-out at least every 30 minutes when not in use, requiring a password for re-entry. All confidential data must be accessed only on the Company's servers and may not be stored on laptops. Associated Persons must report to the Company any lost laptop or Company issued mobile device or any known intrusion of such device. Company shall maintain a record of any such notices and any actions taken.
  + Company shall deactivate any terminated employees’ logins/passwords, electronic building cards, etc. to prevent gaining access to customer information upon leaving the Company.
  + Computers or other data-retaining equipment that will be disposed of will be subject to clearing of hard drives and other repositories of data prior to disposal. If a computer will be re-assigned to someone who is not authorized to view data stored on that computer, the hard drive will be cleared prior to reassignment. Flash drives and other portable data devices that will no longer be used or will be reassigned will be destroyed or cleared of all data prior to disposal.
  + Training of personnel will be conducted annually at the compliance meeting or sooner if necessary.

### 6.2.8 Information Breaches

In the event personal information is at risk, the Company will take the following precautions:

* Informing potentially affected person(s) of the breach by any and all measures available (i.e. phone, email, letter, etc.) and doing so as soon as possible;
* Monitoring any affected accounts for suspicious activity with possibility of freezing said account(s) with person(s)’ authorization and knowledge;
* Contact affected person(s) for future transactions;
* Consult with affected person(s) regarding possible changes to account number and/or passwords.

In addition, should the Company suspect that an incident of identity theft has occurred or if it is notified by a customer that they suspect an identity theft, the designated principal or his designee shall contact the Company’s Legal department and Compliance department. These departments shall commence an investigation and determine if an identity theft may have occurred. If the investigation determines that one may have occurred, Compliance and Legal shall notify the appropriate law enforcement agencies. (This includes the local Sheriff, the FBI, and Secret Service, if applicable. The FTC serves as a clearinghouse for complaints against credit reporting agencies and credit grantors, referrals, and resources for assistance for victims of identity theft. They should be notified if the suspected victim requests this type of assistance. Refer to “Title 18 USC 1028” and to “Identity Theft and Assumption Deterrence Act of 1998”.)

### 6.2.9 CYBERSECURITY Governance

Cybersecurity is generally defined as maintaining the security of cyber systems. Cybercrimes are broadly defined as any illegal activity that involves a computer, another digital device, or a computer network. Cybercrime includes common cybersecurity threats like social engineering, software, vulnerability exploits, and network attacks. The US financial system makes institutions attractive targets to criminals, including terrorists and state actors targeting websites, systems, and employees to steal customer and commercial credentials and proprietary information.

Associated Persons should immediately report to Compliance any perceived cybersecurity threat. This Section addresses details of Company's efforts to ensure the integrity of its systems.

Company has conducted an assessment of its information security systems and practices and has adopted these procedures to identify risks, mitigation, and escalation procedures. These Cybersecurity Procedures supplement the Business Continuity Plan, Identity Theft Prevention Program and Privacy Procedures. Morris Monroe is the Chief Information Security Officer and has the overall responsibility of ensuring the protection of Company’s systems and information.

Cyber-attacks include gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as by causing denial-of-service attacks on websites. Third parties or insiders using techniques that range from highly sophisticated efforts to electronically circumvent network security or overwhelm websites to more traditional intelligence gathering, and social engineering aimed at obtaining information necessary to gain access may carry out cyber-attacks. At risk is the personal information of clients as well as the business operations of the Company.

**Cloud-Based E-mail Account Takeovers (ATOs)**

Attackers may use compromised e-mail accounts to take over e-mail to defraud firms by requesting fraudulent wire requests or stealing confidential firm information or non-public personally identifiable information. This includes attacks taking over administrative privileges which may result in a broader attack.

#### 6.2.9.1 Cyber Risk Assessment

Company shall assess cybersecurity risks and vulnerabilities to its Assets and Systems and the potential business consequences associated with such risks to determine the best approach to mitigate or address occurrences. It periodically shall:

1. Consider the probability of cyber incidents occurring and the quantitative and qualitative magnitude of those risks, including the potential costs and other consequences resulting from misappropriation of Assets or sensitive information, corruption of data or operational disruption;
2. Evaluate the adequacy of preventative actions taken to reduce cybersecurity risks in the context of its operations and risks to that security, including threatened attacks;
3. Analyze the operational environment in order to discern the likelihood of a cybersecurity event and the impact that the event could have on the Assets and Systems;
4. When performing risk analysis, incorporate emerging risks and threats to facilitate a robust understanding of the likelihood and impact of cybersecurity events;
5. Identify and establish priorities, constraints, risk tolerances and assumptions used to support operational risk decisions; and
6. Record who conducts the assessments, the date of the assessments, the findings from the assessments and the remediation, if any, performed because of the results of such assessments.

#### Inventory Assessment

Company will periodically identify and take inventory and catalog the assets and systems that enable it to achieve business purposes ("Assets and Systems") and maintain a more detailed inventory (not contained in this document). Below is an Inventory Summary, whether physical or virtual that may be vulnerable to cybersecurity threats, including:

* Types of data and other information transmitted and stored in its Assets and Systems;
* Connections to Company's network from external sources and Personnel who use and have high-level access to Assets and Systems;
* Devices, software platforms, facilities, communication mediums and applications that make up the Assets and Systems; and
* Assets and systems of key service providers.

**Assets & Systems Inventory** *(prioritized according to sensitivity and value)*

|  |  |  |  |
| --- | --- | --- | --- |
| **Hardware/Physical Devices** | | | |
| **Device** | **Description** | **Risks** | **Mitigation** |
| Mobile Devices:  1. Laptops:  Company or Avior issued  2. Cell Phones *(used to access co email)*  3. iPad | Dell business product  All personal phones with added email acct  MLM | Stolen, unauthorized access | * + 1. Firewalls, spam prevention,     2. No Company data is stored on laptops.     3. Strong password protected,   Passcodes on mobile devices, passwords on email acct. |
| PCs - *Personal computers office workstations* | Home office employees (will be changing out to laptops when necessary) | Stolen, unauthorized access | Firewalls, spam prevention, manages passwords and access permissions, strong passwords utilized and changed regularly |
| Servers  Cisco, Firewall | Network information | Stolen, unauthorized access | Building alarm system, cameras, bolted to wall, firewalls, network intrusion detection system, backs up all critical client and firm data every 15 minutes, scanned every week to detect potential intrusions risks. |
| **Software & Applications** | | | |
| **Program** | **Description** | **Risks** | **Mitigation** |
| Gorilla  *(will maintain in addition to other CRM)* | CRM system | SS, dob | Company firewalls |
| External Access to Network | VPN to Firewall | Laptop stolen, unauthorized access | Set up by IT with safety protocols and pw.  Firewalls, limited access, strong passwords and changed regularly |
| Email | Electronic communication | Unauthorized access, sensitive information accessed | Firewalls & spam protection (updated), encrypted messaging utilized when transmitting sensitive information. |
| Third Party Vendor Software | WSC-HTS, WinOps, RIA-Schwab Advisor website, CRM, Black Diamond | Unauthorized access | No customer data on Company servers, both Company and Vendor firewalls and data backup, Vendor management of access permissions and passwords (changed regularly and Schwab has additional authentication levels). |
| CRM | For client information and communication | Cloud-based | No customer data on Company’s server. Vendor has protections, SOC and SOC2 reporting. |

*Additional, more detailed information maintained in an excel spreadsheet.*

#### 6.2.9.3 Cybersecurity Guidelines

Pursuant to the National Institute of Standards and Technology (NIST) risk management and processes and the SEC’s Office of Compliance Inspections and Examinations (OCIE) Exam Initiative, Company has adopted the following Information Security Policy in an effort to identify, mitigate, and escalate information threats or breaches.

When replacing a computer or other equipment that holds data on a hard drive, Company will make sure that such data is completely erased. In some cases, the only way to absolutely guarantee that information on a hard drive is irretrievable may be to destroy the hard drive (which may not be practicable).

**Guidelines**:

1. Map the organizational communication and data flows within and outside the Company;
2. List critical Assets and Systems and those that would have a debilitating impact on the Company (as noted in above Inventory);
3. Limit access to Assets and Systems to authorized users, processes and devices, and to authorized activities and transactions. And, employees may not access data, files, or systems where they are not authorized to have access;
4. Manage identities and credentials for authorized devices and users;
5. Protect network integrity by incorporating network segregation where appropriate;
6. As frequently as necessary, update Company's anti-virus software and firewalls and consider whether such software and firewalls should be upgraded or replaced;
7. Back up all critical client and firm data as frequently as necessary in a manner where such data is not linked to current systems (*i.e.,* physically separate system). Test back up data – test the ability to restore data that has been backed up. At least on a monthly basis, choose a file to test Company’s data backup system and the integrity of a tested restore.
8. Manage technical security solutions to ensure the security and resilience of Assets and Systems, consistent with related policies, procedures and agreements;
9. Periodically cross check known cybersecurity threats to Company's countermeasures to such threats;
10. Implement as soon as reasonably possible defensive measures and other safeguards against any cybersecurity threats newly discovered or not otherwise protected Company's cybersecurity procedures;
11. Maintain protection against Distributed Denial of Service (DDoS) attacks for critical Internet-facing IP addresses, if applicable;
12. Maintain updates regularly. In the interim, Company will implement patches when incoming threats are detected;
13. Employees must protect passwords assigned to them and not share them with anyone not authorized to receive the information;
14. Devices must have a PIN or locking mechanism to prevent others from accessing data and physically secured at all times to prevent the risk of theft or loss. The designated supervisor and Compliance must be notified immediately if devices with customer information are lost or stolen.
15. All access to Company systems or transmission of data must be conducted through secure systems and networks.
16. Do not open e-mails and particularly attachments from unknown sources and sources that appear to be genuine but ask for confidential information (potential phishing).
17. Branch office(s) and the home office share the same IT service to ensure similar systems and controls and are subject to branch reviews. Branch offices must notify Morris Monroe or Compliance of any violations or loss or stolen data or assets.
18. Ensure secure asset disposal, such as destroying hard drives no longer in use.
19. All employees and Associated Persons are required to attest annually to their knowledge of and compliance with Company’s cybersecurity policies.

**Monitoring and Detection**

Company will monitor Assets and Systems at discrete intervals to identify cybersecurity events and verify the effectiveness of protective measures. This will include:

1. The network in an attempt to detect potential cybersecurity events;

*[Company maintains threat prevention programs on Server and manages such activity. Alerts are provided in the event they occur). Cisco Meraki (unified management of devices) portal also monitored by IT and Compliance). Alert emails will be maintained as evidence of review and a monthly review will be maintained as a separate testing document – Meraki/Organization/Summary Rpt].*

1. The physical environment to detect potential cybersecurity events;

*[Same as well as Event Log maintained on Server]*

1. The personnel activity to detect potential cybersecurity events; *[Same]*
2. For signs of malicious code *[Same]*;
3. For evidence of unauthorized mobile code;
4. For unauthorized personnel, connections, devices, and software *[Event Log]*;
5. Limit the universe of information that is susceptible to a data breach by reviewing and reassessing record/data and destroying unneeded data if permitted by books and records requirements of applicable statutes and regulations, including Rule 204-2 under the Advisers Act, and Company's Books and Records Procedures; and
6. When replacing a computer or other equipment that holds data on a hard drive, such data is completely erased. In some cases, the only way to absolutely guarantee that information on a hard drive is irretrievable may be to destroy the hard drive (which may not be practicable). *[Compliance maintains certificates of destruction]*
7. Data breaches resulting from the loss or theft of personal communications devices containing or having access to confidential client data, such as information in corporate email;
8. Interception of wireless network communications to and from a mobile device across unsecured wireless access points (*e.g.,* public Wi-Fi hotspots located in many airports);
9. Data leakage concerns involving corporate data accessible via an app on such a device (*e.g.,* Dropbox), and the difficulties in controlling the flow of proprietary information and intellectual property outside the Company;
10. Surveillance obstacles in monitoring compliance on personal devices; and
11. Rogue software, apps, spyware, mobile adware (also known as malware), viruses and worms that can infect devices. These threats can compromise not only a device itself, but also can spread Company's corporate network and infect other machines. For example, a brand of cell phone running one particular operating system version (*e.g.,* iOS 6.1.1) could be vulnerable to exposing access to contacts, calendars, and other information, and to a vulnerability permitting the passcode to be circumvented.

*[Same as well as Event Log maintained on Server]*

**Escalation and Responding to a Cybersecurity Attack**

Company will take immediate action regarding a detected cybersecurity event that, at a minimum includes:

1. Reporting any potential or known incident to Compliance. Such information may involve sharing with internally and externally individuals consistent with established criteria in an effort to achieve broader cybersecurity situational awareness;
2. Compliance and IT can begin to deal with a data breach as soon as it is discovered, prepare an Incident Report (as noted below);
3. Activating pre-existing measures, including a vulnerability management plan and patches, designed to contain the impact of a potential cybersecurity event;
4. Performing forensics and analysis as soon as possible to understand the nature of the cybersecurity event, any data loss, and potentially impacted customers; and
5. Performing activities to prevent expansion of an event, mitigate its effects, and eradicate the incident. This may include shutting down systems, account(s), logins, etc.
6. Coordinating restoration activities with internal and external parties, such as coordinating centers, Internet service providers, owners of attacking systems, victims, other CSIRTs, and vendors; and
7. Remotely wipe a lost or stolen device, through either a selective wipe of strictly corporate data or a full wipe of the entire device, restoring it to factory default settings.
8. Reporting fraud, where appropriate, to authorities including FINRA, the SEC, the FBI, the Internet Crime Complaint Center, and local state securities regulators, including filing a SAR.

|  |
| --- |
| * FINRA‘s [Regulatory Tip Form](https://www.finra.org/contact-finra/file-tip) found on FINRA.org; * U.S. Securities and Exchange Commission’s tips, complaints and referral system (TCRs) or by phone at (202) 551-4790; * the Federal Bureau of Investigation’s (FBI) tip line at 800-CALLFBI (225-5324) or a local FBI office; * the Internet Crime Compliant Center (IC3) for cyber-crimes (particularly if a firm is trying to recall a wire transfer to a destination outside the United States); and * local state securities regulators. |

1. Regarding a Company compromised email account:

* Immediately shutting down any Company e-mail account by disabling access or resetting the compromised e-mail account with a sufficiently complex password prior to reinstating the account;
* Evaluating whether appropriate forensic expertise was available within the Company or whether a third-party service provider should be hired;
* Consider making a copy (or add to a folder in the archive) of any affected e-mail account, including all e-mails across all folders (such as those hosted by the record retention provider) to capture all information potentially accessed by the attacker at the time of any compromise;
* Reviewing all of the e-mail content in the compromised account, including attachments, to determine whether the attacker had access to sensitive or confidential information, such as personally identifiable information (PII);
* Determining whether any customer information was breached and notification required under federal or state law;
* Confirming that any malware or viruses were deleted and unnecessary user accounts were closed;
* Reviewing the overall cybersecurity environment to address any other potential impacts of the attack;
* Implementing multi-factor authentication controls, if not already in use; and
* Notifying appropriate law enforcement agencies (e.g., the local Federal Bureau of Investigation field office) and the FINRA Regulatory Coordinator of the attack.

**Incident Reports**

Company shall maintain a log with a brief summary for each category listed below, identifying the number of such incidents (approximations are acceptable when precise numbers are not readily available) and describing their significance and any effects on the Company, its customers, and its vendors or affiliates. If the response to any one item includes more than 10 incidents, note the number of incidents, and describe incidents that resulted in losses of more than $5,000, the unauthorized access to customer information, or the unavailability of a service for more than 10 minutes. The record or description should, at a minimum, include: the extent to which losses were incurred, customer information accessed, and services impacted; the date of the incident; the date the incident was discovered and the remediation for such incident. (Include incidents that occur even if such an incident resulted from an accident or negligence, rather than deliberate wrongdoing.)

* Malware was detected on one or more Firm devices. Please identify or describe the malware.

• The availability of a critical Company web or network resource was impaired by a software or hardware malfunction. Identify the service affected, the nature and length of the impairment, and the cause.

• Company’s network was breached by an unauthorized user. Describe the nature, duration, and consequences of the breach, how the Company learned of it, and how it was remediated.

• Company received fraudulent emails, purportedly from customers, seeking to direct transfers of customer funds or securities.

• Company was the subject of an extortion attempt by an individual or group threatening to impair access to or damage Company’s data, devices, network, or web services.

• An employee or other authorized user of the Company’s network engaged in misconduct resulting in the misappropriation of funds, securities, sensitive customer or Company information, or damage to the network or data.

* Indicate whether any incident was reported to the following:
  + Law enforcement (please identify the entity)
  + FinCEN (through the filing of a Suspicious Activity Report)
  + FINRA
  + A state or federal regulatory agency (identity the agency and explain the manner of reporting)
  + An industry or public-private organization facilitating the exchange of information about cybersecurity incidents and risks

**Third Party Vendors**

With respect to third party vendors, Company will:

1. Ascertain its dependencies on third-party vendors;
2. When entering agreements and renewing existing agreements with vendors, review and reassess service contracts with vendors to ensure that privacy and computer security issues are adequately addressed and based on this assessment, consider whether an amendment to a vendor contract may be necessary;
3. Request and review the cybersecurity policies and procedures of each applicable vendor to ascertain their adequacy;
4. Coordinate with vendors so that Company can receive information from them that enables collaboration and risk-based management decisions within the Company in response to events;
5. Routinely and actively share information with vendors to ensure that accurate, current information is being distributed and consumed to improve cybersecurity before a cybersecurity event occurs;
6. If appropriate, periodically obtain certifications from vendors regarding the occurrence of any known cybersecurity attacks and whether the Company was notified of such attacks;
7. Periodically review its policies with insurance companies to verify that such policies cover losses and expenses attributable to cybersecurity incidents; and
8. Ensure that applicable third-party vendors (*e.g.,* suppliers, customers, partners) will understand roles and responsibilities.

**Mobile Devices and the Cloud**

Company allows the use of mobile devices for such processes like internet and email. In addition, Company policies and training instill the prohibition of using such devices in unsecured, public Wi-Fi areas.

**Employees**

Company understands that its cybersecurity program will only be effective to the extent that its employees are trained, and their activities do not contribute to a cybersecurity attack. With respect to employees, Company requires employees to practice computer security best practices (*e.g.,* use passwords with a mix of uppercase and lowercase letters, numbers, and symbols);

**Branch Offices**

Branch offices are required to comply with Company's requirements to protect customer and Company information. Branch office cybersecurity practices will be subject to branch reviews. Computers and other devices that access or maintain confidential customer information must:

* be password-protected
* be secured to prevent stealing
* use only authorized devices, software and cloud services
* have current required firewall, virus, malware, and other protection software

Breaches or loss of computers or other devices containing confidential information must be reported immediately to Compliance.

**Disclosure**

Where appropriate, a description of Company's cybersecurity procedures may be disclosed in Company’s brochure, web site and other materials and, if applicable, the risks of cybersecurity attacks shall be included in such disclosure. Morris Monroe and Compliance shall make such determination.

**Client Notification**

As soon as reasonably possible after a material cybersecurity breach occurs, Company shall notify clients impacted by such breach in accordance with Company's Identity Theft Prevention Program.

**Testing**

Company maintains an environment for testing (at a minimum with the annual review). It shall record the date of such testing, the type of test performed, the results of the test and changes or other actions taken in response to the testing results. Company shall test:

* Functionality of its backup system;
* Response and recovery plans;
* The reliability of event detection processes; and
* Detection processes.

Where possible, Company shall use the analysis of its tests to improve cybersecurity defensive measures.

#### 6.2.9.4 Training

Company trains its personnel on cybersecurity risks and responsibilities. At a minimum:

1. Provides awareness education and conducts training to make employees aware of the various computer threats so they can be recognized when they occur;
2. All users of Assets and Systems will be informed and trained, including their information security-related duties and responsibilities;
3. Privileged users (*i.e.,* users with higher clearance and greater access to Assets and Systems) will understand their roles and responsibilities; and
4. Where appropriate, personnel shall periodically attend external seminars and other events about cybersecurity threats, including such events sponsored by vendors.

## 6.3 Regulation S-AM - Limitations on Affiliate Marketing *(eff 6/01/10)*

Regulation S-AM limits use of certain information received from Company's affiliates to solicit a consumer for marketing purposes.

### 6.3.1 Definitions

*“Eligibility Information”* means any communication of bearing on a consumer’s credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living that is used or expected to be used or collected in whole or in part for the purpose of serving as a factor in establishing the consumer’s eligibility for credit or insurance to be used primarily for personal, family, or household purposes or employment purposes.

*“Marketing Solicitation”* means the marketing of a product or service initiated by the Company to a particular consumer that is (i) based on eligibility information communicated to the Company by its affiliate; and (ii) intended to encourage the consumer to purchase or obtain such product or service.

Consumers may block the use of certain financial information by affiliates of the person the consumer does business with. Company does not currently use any affiliate customer “eligibility information” for marketing purposes. However, in the event this changes in the future, Company may use such eligibility information with the affiliate if:

* the potential market use of the information has been clearly, conspicuously, and concisely disclosed to the consumer;
* the consumer has been provided with reasonable opportunity to opt out; and
* the consumer has not opted out.

Company will only use information from affiliates if the above requirements are satisfied. Opt-out notices under Regulation S-AM may be included with Regulation S-P opt-out notices.

## 6.4 Identity Theft Prevention Program (“Program”)

Company has determined that it is a “Financial Institution” and has adopted the following procedures in order to detect, prevent and mitigate identity theft among the Company’s clients and “Covered Accounts.” Morris Monroe, as the designated Information Security Officer, will be responsible for the development, implementation, review and approval of the Program and staff training. In addition, Company has adopted other procedures under Regulation S-P and Anti-Money Laundering that in conjunction with the Program will help prevent and mitigate identity theft.

The four elements of the Program are:

1. Identify relevant red flags for the covered accounts that Company offers or maintain, and incorporate those red flags into its Program;
2. Detect red flags that have been incorporated into Company’s Program;
3. Respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and
4. Update the Program and its red flags periodically to reflect changes in identity theft risks to customers and the Company.

### 6.4.1 Definitions

***Financial Institution***: A depository institution or any other person that directly, or indirectly, holds a transaction account belonging to a customer

***Transaction Account***: An account that permits the account holder to make withdrawals for payment or transfer to third parties of securities or funds vial telephone transfers, check, debit card or other similar items.

***Consumer***: Refers only to Individuals.

***Creditor***: Any person who regularly extends, renews, or continues credit or regularly arranges for the extension, renewal, or continuation of credit.

***Covered Account***: Refers to:

1) an account offered or maintained primarily for personal, family or household purposes that is designed to permit multiple payments or transactions; or

2) any other account 6for which there is a foreseeable risk to customers or safety and soundness of the member firm from identity theft, including financial, operational, compliance, reputation or litigation risks.

The following Program procedures have been adopted:

### 6.4.2 Method of Opening Accounts

Pursuant to the Anti-Money Laundering and Customer Identification Program (CIP) procedures of the WSP, information obtained from customers at the account opening process include name, address, social security number, date of birth, and driver’s license in order to verify identity. In addition, pursuant to SEC Rule 17a-3, a letter is sent to the customer verifying investment objectives and account registration information to verify as well. In the event the Company cannot establish a reasonable belief that it knows the true identity of a customer, it will follow the CIP obligations, which may involve declining or closing an account. A full description of the account opening, and CIP procedures may be found in Section 7.

Further, accounts are opened either directly with an issuer via direct application or electronically, via the Hilltop Securities proprietary software program. No Company accounts are opened directly by clients online.

### 6.4.3 Methods for Accessing Accounts

Clearing firm accounts are accessed via a secured internet-based software program that requires a password protected user identification. Passwords automatically expire and must be updated every four weeks, must contain alpha-numerical characters, and are case sensitive. Direct Application accounts can be accessed through various websites, each with their own user identification and password policies. Company policies require that user identification and passwords for all programs and entry to the network be kept confidential, unpublished, and contain alpha-numerical characters that are case sensitive.

### 6.4.4 Previous Experience with Identity Theft

When reviewing and updating the procedures, Company will review any identity theft incidences or when it has been notified by a customer that they have been the victim of identity theft and ascertain what steps or procedures may need to be amended to make the Program more effective.

### 6.4.5 Service Providers

Due diligence will be performed on any service provider that will have access to customer personal information. Pursuant to Regulation S-P procedures as well, service providers will be bound contractually, where applicable, and obligated to maintain appropriate safeguards that comply with federal regulations to protect the confidentiality, security and integrity of Covered Account information as well as agree to comply with the provisions of our Program or with their own procedures that are similar in purpose.

### 6.4.6 Address Change Notifications

Pursuant to AML rules, address changes are verified by forwarding a letter of verification to the old address first with the new information listed and before any system change is affected. The notice advises the customer of the request and inquires if the information is correct and in fact requested by the customer. Either a copy of said letters are maintained in a central location or noted with a date sent in WinOps. In addition, Company may rely on custodian sending such letter and will either be recorded in custodian database or in WinOps. Alternatively, if custodian requires their proprietary form to be completed and the form is sent to the contact information on record, customer signature(s) match previous documents, and the date is noted on the form, no verification by Company needs to be sent.

### 6.4.7 Regulation S-ID – Identity Theft Red Flags *(eff 11/20/13)*

The SEC has adopted Regulation S-ID, the Identity Theft Red Flag Rules, required under the Dodd Frank Act and therefore the Company has adopted the following procedures.

#### 6.4.7.1 Detection

Pursuant to the Program assessment, Company has identified the following red flags, which may not be all inclusive and may be more relevant when combined with other factors. Detecting red flags is based upon the processes Company opens and handles accounts and customer information*.*

***Indicators at the Account Opening Stage****:*

* A customer exhibits an unusual concern regarding the Company’s compliance and requirements with respect to his/her identity, or furnishes unusual, suspect, or appear to be altered identification or business documents;
* Inconsistencies in information such as SS#, date of birth or suggests fraud, such as an address that is fictitious or used by other multiple accounts, a mail drop, a prison; or a phone number is invalid, or is for a pager or answering service, omits or is reluctant to provide information.
* New information for an existing customer does not match prior information or signatures on file.
* A customer appears to be acting as the agent for another entity but declines, evades or is reluctant, without legitimate commercial reasons, to provide any information in response to questions about the entity;
* A customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her identity; and
* A customer only wants to provide a post office box for their address without providing a verifiable physical address.

***Indicators Related to Account Activity****:*

* A customer engages in multiple transfers of funds or wire transfers that have no apparent personal or business purpose;
* Unauthorized transactions;
* Customer notice of identity theft, a fraudulent account has been opened, unauthorized access to their personal information due to a data breach or lost wallet, laptop, etc. for potential identity theft;
* A customer’s account has unexplained or sudden extensive wire activity, where previously there had been little or no wire activity without any apparent personal or business purpose;
* A customer has a large number of wire transfers to unrelated third parties;
* For no apparent reason, a customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers;
* A customer engages in excessive journal entries between unrelated accounts without any apparent business purpose or relationship;
* A customer requests that a transaction be processed in such a manner so as to avoid Company’s normal documentation requirements;
* Subsequent to a change of address request for an account, Company is asked to add additional access means (such as debit cards or checks) or authorized users for the account;
* Mail from Company or clearing firm sent to a customer is returned repeatedly as undeliverable even though the account remains active or Company learns that a customer is not getting his or her paper account statements/confirms or other official documents.
* A customer exhibits a total lack of concern regarding risks, commissions, or other transactions costs;
* The Company receives a negative response to a customer’s address change verification request. and
* Notice of an actual or suspected identity theft provided by a customer, law enforcement, Vendor or any individual or entity.

Both red flag detection and the escalation procedures below will assist the Company in the prevention and mitigation of identity theft.

#### 6.4.7.2 Prevention, Mitigation, Escalation

When Company has been notified of a Red Flag or detection procedures show evidence of a Red Flag, Company will take the steps outlined below, as appropriate to the type and seriousness of the threat:

* Notify the Compliance Department immediately and designated supervisor.
* Monitor, limit, or temporarily suspend, freeze activity in the account(s) until the situation is resolved, or do not open an account (if HTS, email [newaccounts@hilltopsecurities.com](mailto:newaccounts@hilltopsecurities.com) with instructions and if applicable, their Unauthorized Access Form.
* Complete the following *(found in Everyone/ID Theft folder)*:

1. ID Theft Log,

2. ID Theft Incident Form, and

3. If applicable, HTS Unauthorized Access Form.

4. Save all documents and information related to an incident in a new folder (within the ID Theft folder) regarding a particular incident.

* Contact the customer and, if appropriate, change the password and/or account number. For information that the Company can use to help a customer that has been the victim of identity theft direct them to <http://www.finra.org/Investors/ProtectYourself/AvoidInvestmentFraud/ProtectYourIdentity/> for further and helpful information or by calling the FTC Identity Theft Hotline at 1-877-ID-THEFT (438-4338), TTY 1-866-653-4261, or writing to Identity Theft Clearinghouse, FTC, 6000 Pennsylvania Avenue, NW, Washington, DC 20580, or their website at <http://www.ftc.gov/bcp/edu/microsites/idtheft/> and their online Complaint Form at <https://www.ftccomplaintassistant.gov/>.
* Conduct additional verification such as contacting the customer, compare customer information with a credit reporting agency or obtaining copies of Form 1040 or financial statements.
* Alert applicable Associated Persons or BackOffice personnel to be mindful of unusual activity in other customer accounts.

* Notify custodian of the situation.
* Identify, if possible, the root cause of the account intrusion (i.e. which system was compromised, was the individual account hacked, was the customer the victim of identity theft) and determine whether the intrusion is isolated to one account.
* In the event of a firm account intrusion of theft, contact the [SEC](javascript:outsideLink('http://www.sec.gov/contact/addresses.htm');) at **(202) 942-8088** (<http://www.sec.gov/contact/addresses.htm>) – FW Regional office **(****817) 978-3821** and our [FINRA Coordinator](http://www.finra.org/Industry/Contacts/P016038), Donald DeBlanc at **504-412-2409**  and have the following information readily available if possible:

- Company information and HTS information, if involved

- Company name and CRD number

- Company contact name and telephone number

- Date(s) and time(s) of activity

- IP addresses used to access the account

- Security or securities involved (name and symbol)

- Details of the trades or unexecuted orders

- Details concerning any wire transfer activity

- Customer account affected by the activity, including name and account number

- Whether the customer has been or will be reimbursed and by whom

* If appropriate, contact law enforcement agencies, such as the [FBI](javascript:outsideLink('http://www.ic3.gov/default.aspx');) at [www.ic3.gov](http://www.ic3.gov) (Internet Crime Complaints) or, if the U.S. mail is involved, the [United States Postal Inspector](javascript:outsideLink('http://postalinspectors.uspis.gov/contactUs/phoneus.aspx');) at **(877) 876-3455** or <http://postalinspectors.uspis.gov/contactus/phoneus.aspx>.
* Contact the TX State Securities Board at **(512) 305-8300**.
* Determine whether any unauthorized person has gained access to an account holder’s personally identifiable information and, if so, whether the Company must provide a specific type of notification to the customer or others under [state law](javascript:outsideLink('http://www.ncsl.org/programs/lis/cip/priv/breach.htm');) regarding the loss of the customer’s information.  Some states require notice to the Attorney General or other state law enforcement agencies if a customer’s “[personally identifiable financial information](javascript:outsideLink('http://www.sec.gov/rules/final/34-42974.htm');)” has been compromised (TX Attorney General – Consumer Protection Hotline **(800) 621-0508.**

Additional information: <http://www.ncsl.org/programs/lis/cip/priv/breach.htm>.

* Determine whether the Company should file a Suspicious Activity Report (SAR) under the federal anti-money laundering provisions.

#### 6.4.7.3 Red Flags Grid

In addition to the information provided above, Company has added the Identification and Detection Grid below. The grid provides a helpful guide and examples of red flags as an additional tool for Company to use. In addition, **FINRA Regulatory** **Notice 19-18** provides a comprehensive list of potential red flags.

|  |  |
| --- | --- |
| **Red Flag** | **Detecting the Red Flag** |
| **Category: Suspicious Documents** | |
| Identification presented looks altered or forged. | Staff who deals with customers and their supervisors will scrutinize identification presented in person to make sure it is not altered or forged (additionally reviewed electronically by Compliance Dept.).. |
| The identification presenter does not look like the identification’s photograph or physical description. | Staff who deal with customers and their supervisors will ensure that the photograph and the physical description on the identification match the person presenting. |
| Information on the identification differs from what the identification presenter is saying. | Staff who deals with customers and their supervisors will ensure that the identification and the statements of the person presenting it are consistent. |
| Information on the identification does not match other information Company has on file for the presenter, like the original account application, signature card or a recent check. | Staff who deal with customers and their supervisors will ensure that the identification presented and other information on file from the account, such as those listed. |
| The application looks like it has been altered, forged or torn up and reassembled. | Staff who deals with customers and their supervisors will scrutinize each application to make sure it is not altered, forged, or torn up and reassembled. |
| **Category: Suspicious Personal Identifying Information** | |
| Inconsistencies exist between the information presented and other things we know about the presenter or can find out by checking readily available external sources, such as an address that does not match a consumer credit report, or the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA’s) Death Master File. | When suspect, custodians/Company staff may check personal identifying information presented to us to ensure that the SSN given has been issued but is not listed on the SSA’s Master Death File. If we receive a consumer credit report, they will check to see if the addresses on the application and the consumer report match. |
| Inconsistencies exist in the information that the customer gives us, such as a date of birth that does not fall within the number range on the SSA’s issuance tables. | Staff will check personal identifying information presented to us to make sure that it is internally consistent by comparing the date of birth to see that it falls within the number range on the SSA’s issuance tables |
| Personal identifying information presented has been used on an account our firm knows was fraudulent. | Staff will compare the information presented with addresses and phone numbers on accounts or applications we found or were reported were fraudulent. |
| Personal identifying information presented suggests fraud, such as an address that is fictitious, a mail drop, or a prison; or a phone number is invalid or is for a pager or answering service. | Staff may validate information presented when opening an account by looking up addresses on the Internet to ensure they are real and not for a mail drop or a prison and will call the phone numbers given to ensure they are valid and not for pagers or answering services. |
| The SSN presented was used by someone else opening an account or other customers. | Staff will compare the SSNs presented to see if they were given by others opening accounts or other customers. |
| The address or telephone number presented has been used by many other people opening accounts or other customers. | Staff will compare address and telephone number information to see if they were used by other applicants and customers. |
| A person who omits required information on an application or other form does not provide it when told it is incomplete. | Staff will track when applicants or customers have not responded to requests for required information and will follow up with the applicants or customers to determine why they have not responded. |
| Inconsistencies exist between what is presented and what our firm has on file. | Staff will verify key items from the data presented with information we have on file. |
| A person making an account application or seeking access cannot provide authenticating information beyond what would be found in a wallet or consumer credit report or cannot answer a challenge question. | Staff will authenticate identities for existing customers by asking challenge questions that have been prearranged with the customer and for applicants or customers by asking questions that require information beyond what is readily available from a wallet or a consumer credit report. Such items may include  1. Their listed emergency contact person;  2. Where their account is held;  3. Any Company communication they could site recently received;  4. Any other questions that may be unique to that person(s). |
| **Category: Suspicious Account Activity** | |
| Soon after our firm gets a change of address request for an account, we are asked to add additional access means (such as debit cards or checks) or authorized users for the account. | Verify change of address requests by sending a notice of the change to the old addresses so the customer will learn of any unauthorized changes and can notify us. A phone call may also be necessary if suspect. |
| A new account exhibits fraud patterns, such as where a first payment is not made or only the first payment is made for cash advances and securities easily converted into cash. | Review new account activity to ensure that any applicable first and subsequent payments are made, and that credit is primarily used for other than cash advances and securities easily converted into cash. |
| An account develops new patterns of activity, such as nonpayment inconsistent with prior history, a material increase in credit use, or a material change in spending or electronic fund transfers. | HTS Cash Movement report (AML Trend Report) is viewed for suspicious new patterns of activity such as nonpayment, a large increase in credit use, or a big change in spending or electronic fund transfers that Company is not already aware of. |
| An account that is inactive for a long time is suddenly used again. | Review our accounts on at least a monthly basis to see if long inactive accounts become very active by reviewing the blotters. |
| Mail our firm sends to a customer is returned repeatedly as undeliverable even though the account remains active. | Note any returned mail for an account and immediately check the account’s activity and attempt to contact customer for address verification. |
| Company learns that a customer is not getting his or her paper account statements. | Investigate and assist custody firm to determine a good address. For HTS accounts, they are moved to Inactive and to the Escheatment Report (to be turned over to the state treasurer). |
| Company is notified that there are unauthorized charges or transactions to the account. | Verify if the notification is legitimate and involves a Company account, and then investigate the report. |
| **Category: Notice from Other Sources** | |
| Company is told that an account has been opened or used fraudulently by a customer, an identity theft victim, or law enforcement. | Verify that the notification is legitimate and involves a Company account, and then investigate the report and follow the escalation procedures. |
| Company learns that unauthorized access to the customer’s personal information took place or became likely due to data loss (e.g., loss of wallet, birth certificate, or laptop), leakage, or breach. | Contact the customer to learn the details of the unauthorized access to determine if other steps are warranted and any other escalation procedures that may be applicable. |

## 6.5 Training

At a minimum, annual training will be conducted for all Associated Persons and related staff members in order to familiarize Company personnel on the Privacy procedures and Red Flags Rules, how to effectively implement the programs, and provide an opportunity to answer questions. Any training will be documented along with an attendance log and maintained as part of the Company’s books and records for a period of three years unless mandated otherwise by the Act.

## 6.6 Review of Procedures

A review of these programs will be conducted at least annually or sooner if determined necessary. Any changes in risk to customers and/or the soundness of the Company from breaches of customer information will be determined and recorded as an amendment. Criteria for consideration will include any incidences of breaches, identity theft, changes in regulatory rules and regulations, changes in Company’s methods to detect, prevent, or mitigate identity theft, or changes in types of Covered Accounts.

# 7. ANTI-MONEY LAUNDERING

# 

## 7.1 Introduction

This chapter explains Company’s Anti-Money Laundering (AML) Program with an explanation of money laundering and guidance for all employees to detect money laundering. These policies and procedures will be updated when new rules are adopted or amended.

## 7.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Morris Monroe - AML Compliance Officer, Branch Office Principals, Compliance Department |
| **Statutes** | * US Patriot Act * SEC Rule 17a-8 * Bank Secrecy Act * FINRA Rules 3310 (old 1160 and 3011(d) - AML Compliance Officer, 3011(c) – Testing * FinCEN Customer Due Diligence Rule for Financial Institutions (eff 05/11/18) |
| **Frequency** | * As required * When new accounts are opened * When addresses change * Annual - schedule, conduct, and follow up testing (unless firm qualifies for testing every two years) * Annual AML Contact info with FINRA * Ongoing – monitor activity * Ongoing – review new regulations |
| **Actions** | * Develop and maintain anti-money laundering program * Obtain senior management approval for the program and any changes to the program * Customer identification (ID) verification information is included with the new account application forms * For legal entities:   + Obtain beneficial ownership certifications   + Determine whether a threshold lower than 25% ownership is warranted depending on the customer's risk for potential enhanced monitoring or to collect additional information including expected account activity * Monitor (or designate monitoring) the activity of Company, Associated Persons, and customers to reasonably detect and prevent money laundering activities * Develop AML education program for employees and schedule training * File required reports * Maintain the confidentiality of SAR reviews and filings:   + Limit the sharing of information to those authorized and need to know   + Electronic files should be password-protected and use a file name that does not identify files as SARs-related   + Destroy copies of SARs when retention periods have passed   + Confer with counsel or other outside expert regarding confidentiality questions. * Retain required records * Provide contact information to FINRA and update contact information if necessary * Notify supervisor and RR, as appropriate, when an account or security is blocked * Notify OFAC by FAX within 10 days of blocking an account (clearing firm or other third party engaged by Woodlands Securities Corp will make filings where appropriate) * Identify risk factors and determine whether heightened scrutiny is warranted * Review FinCEN advisories and include FinCEN red flags in suspicious activity identification * Identify person(s) to conduct testing * Conduct testing * Report results to CEO in annual compliance report * Revise policies and procedures as necessary * Conduct follow-up to determine corrective action has been taken * Establish and maintain the Identity Theft Program * When red flags are identified, take corrective action * New products/ business lines consideration for AML * Review activity in micro-cap, penny stocks activity (risk is typically in omnibus accounts and/or foreign nationals which is currently N/A for Company) but will review for red flags |
| **Records** | * Independent testing results including who conducted and dates of review, results, and actions taken * Reports to CEO * Record of changes to policies and procedures * Record of follow-up actions * New Account Form and account identity information * Computer Reports * OFAC Search Results * FinCEN reviews * Training records * Copies of reports filed * Accounts identified for heightened scrutiny and actions taken * Notes and other documented reviews are retained in a suspicious activity file * Red Flags identified; actions taken |

## 7.3 AML Compliance Officer

Morris Monroe is the designated Money Laundering Compliance Officer fully responsible for the Company’s AML Program. His duties will include monitoring the Company’s AML compliance, overseeing communication and training of employees, ensuring applicable recordkeeping, and ensure Suspicious Activity Reports (SARs) are filed, and the Company is in compliance with the USA Patriot Act. These procedures have been approved by the Senior Management of the Company, Morris Monroe. Morris Monroe and the two employees in the Home Office Back Office/Customer Service Department are responsible for the implementation and monitoring of the day-to-day operations in the Home Office and the designated Principals in the branch offices. In addition, the designated principals in the branch offices and Laura Hendricks also have the training, qualification and duties with respect to AML compliance (e.g. account review, customer identity review)responsibility as also stated in Section 3 (Supervisory Personnel) along with their contact information. Company will review and update if necessary its AML contacts on a quarterly basis, within 17 business days following each calendar quarter, through the FINRA Contact System.

## 7.4 FINRA Rule 3310. AML Compliance Program

Company shall develop and implement a written AML reasonably designed to achieve and monitor its compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Company’s AML program shall be approved, in writing by Morris Monroe or Laura Hendricks.

The AML programs required by this Rule shall, at a minimum,

(a) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(b) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(c) Provide for annual (on a calendar-year basis) independent testing for compliance to be conducted by Company personnel or by a qualified outside party, unless the member does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts (e.g., engages solely in proprietary trading or conducts business only with other broker-dealers), in which case such "independent testing" is required every two years (on a calendar-year basis);

(d) Designate and identify to FINRA (by name, title, mailing address, e-mail address, telephone number, and facsimile number) an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program (such individual or individuals must be an associated person of the member) and provide prompt notification to FINRA regarding any change in such designation(s); and

(e) Provide ongoing training for appropriate personnel.

## 7.5 Policies and Regulations

It is the Company’s policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money Laundering is the process where an individual conceals (or attempts to conceal) the existence, illegal source, or illegal application of income (including digital assets) or disguises the income to appear legitimate and it is the Company’s policy to detect, deter, and prevent any such violations. Money Laundering may involve;

1. Evading or falsifying reports required by the U.S. or state governments;
2. Participating in transactions that you know involves criminally derived proceeds that exceed $10,000;
3. Transporting or helping to transport money, digital assets, or property that you **believe** is criminally derived with intent to hide its source or ownership or the payment of taxes; or
4. Engaging in a financial transaction involving criminally derived property while intending to promote illegal activity.
5. **Digital Assets** include Instruments that may qualify under applicable U.S. laws as securities, commodities, or security- or commodity-based instruments such as futures contracts or swaps. There is no uniform legal definition, and digital assets have different labels such as cryptocurrencies, digital tokens, digital currencies, virtual assets, and initial coin offerings.

If the Company or any of its employees are found **to have knowingly been involved, to recklessly disregard or willfully blind** in any of the activities they may be found guilty of money laundering. Morris Monroe will be responsible to investigate any potential cases of money laundering.

**Criminal Activity** includes terrorism, drug trafficking, white-collar crime, embezzlement, bribery market manipulation or insider trading.

**Legislation** Morris Monroe will insure compliance with all of the following rules:

### 7.5.1 The Money Laundering Abatement Act

**Section 312:**  Requires special due diligence for all private banking and “correspondent” bank accounts (accounts established to receive deposits from, make payments on behalf of, or handle other financial transactions for a foreign bank) involving foreign persons, even if opened before Congress passed the Patriot Act. The Company has no correspondent bank accounts.

**Section 313:**  Prohibits certain financial institutions, including broker/dealers, from maintaining a “correspondent account” for, or on behalf of, a foreign “shell” bank (a foreign bank with no physical presence in any country). The Company has no correspondent accounts for or on behalf of any shell bank.

**Section 314:** Addressed increased cooperation among financial institutions, regulatory authorities, and law enforcement authorities. Registration to share information can be filed online at [www.treas.gov/fincen](http://www.treas.gov/fincen) regarding terrorist financing and money laundering activities to be shared with other financial institutions or associations of financial institutions.

**Section 319:** A financial institution is required to produce account information relating to foreign bank accounts **within seven days** in response to requests from federal law enforcement.

**Section 326** Requires minimum standards for customer identification in the account opening process and maintenance of records identifying the customer (Customer Identification Program (CIP). See further information below). The Company must fully implement their CIP procedures by October 1, 2003.

**Section 352:** Requires all financial institutions to develop and implement AML compliance programs on or before April 24, 2002.

**Section 356:** Requires financial institutions to file Suspicious Activity Reports (SARs) to become effective 180 days after the date on which the final broker/dealer SAR regulations are published in the Federal Register.

### 7.5.2 The Bank Secrecy Act of 1970 and SEC Rule 17a-8

**SEC Rule 17a-8** requires the Company to establish procedures to prevent the concealment of money that results from illegal activities or tax avoidance schemes.

**The Bank Secrecy Act of 1970** requires financial institutions to report to the IRS all cash transactions that reach the threshold of $10,000 or more by filing a Currency Transaction Report, Department of Treasury Form 4789 within 15 days after the receipt of funds. With respect to each new account established by the Company, by persons residing or doing business in the United States, or a citizen of the United States, the Company shall within 30 days from the date such account is opened, secure and maintain a record of the taxpayer's identification number of the person on whose behalf the account is established; or in the case of an account of one or more individuals, the Company shall secure and maintain a record of the social security number of an individual having a financial interest in the subject account.

In the event that the Company has been unable to secure the identification required within the 30-day period specified, it will nevertheless not be deemed to be in violation of the Bank Secrecy Act or SEC Rule 17a-8, if:

(1) The Company has made a reasonable effort to secure such identification; and

(2) The Company maintains a list containing the names, addresses, and account numbers of those persons from whom it has been unable to secure such identification, and makes the names, addresses, and account numbers of those persons available to the proper authorities as may be requested.

The Company's personnel must ensure that a W-9 is obtained for each account established on behalf of a customer. If a W-9 is not obtained, the appropriate backup withholding will be applied and a list of all outstanding W- 9's shall be maintained by the Company as a part of its books and records.

Where a person is a nonresident alien, the Company shall also record the person's passport number or description of some other government document used to verify the individual's identity.

The 30-day period provided for in the Bank Secrecy Act shall be extended where the person establishing the account has applied for a taxpayer identification or social security number on Form S-4 or S-5, until such time as the person maintaining the account has had a reasonable opportunity to secure such number and furnish it to the Company.

A taxpayer identification number for a deposit or share account required under the above paragraph need not be secured in the following instances:

(1) Accounts for public funds opened by agencies and instrumentalities of Federal, State, local or foreign governments;

(2) Accounts for aliens who are:

(a) Ambassadors, ministers, career diplomatic or consular office, or

1. Naval, military or other attachés of foreign embassies, and legations, and or the members of their immediate families.

(3) Accounts for aliens who are accredited representatives to international organizations which are entitled to enjoy privileges, exemption, and immunities as an international organization under the International Organizations Immunities Act of December 29, 1945 (22 USC Sec. 288), and for the members of their immediate families.

Every broker or dealer in securities will, in addition, retain as required, either the original or a microfilm or other copy or reproduction of each of the following:

(1) Each document granting signature or trading authority over each customer's account;

(2) Each record described in section 240.17a-3(a)(1), (2), (3), (5), (6), (7), (8), and (9) of Title 17, Code of Federal Regulations;

(3) A record of each remittance or transfer of funds, or of currency, checks or monetary instruments, investment securities, or credit, of more than $3,000 to a person, account, or place, outside of the United States.

(4) A record of each receipt of currency, other monetary instruments, checks or investment securities and of each transfer of funds or credit, of more than $3,000 received on any one occasion directly and not through a domestic financial institution, from any person, account or place outside the United States.

**BSA Filings**

FinCEN has an e-filing system for electronic filing of BSA forms, most of which must be filed electronically. FinCEN also provides Adobe forms which must be filed in paper form. [BSA E-Filing System: <http://bsaefiling.fincen.treas.gov/main.html>; FinCEN web site for Adobe forms: <http://www.fincen.gov/forms/bsa_forms/>]

The BSA E-Filing System web site provides a list of forms supported for electronic filing, and include the following (refer to the web site for the most current list of forms):

* Currency Transaction Report (FinCEN Form 112) for deposits exceeding $10,000
* Designation of Exempt Person (FinCEN Form 110)
* Suspicious Activity Report by the Securities and Futures Industries (FinCEN Form 111)
* Report of Foreign Bank and Financial Accounts (Form 114)

### 7.5.3 The Joint and Travel Rules

**Requirements**

The amendments to the Bank Secrecy Act (BSA) require the Company through its clearing firm, to obtain and keep certain information concerning the transmittor and the recipients of funds of $3,000 or more. Additionally this information must be included on the actual transmittal. All transmittals are handled by Hilltop Securities, Inc. on behalf of Company.

The Joint rule requires that all transmittor’s (established customer) financial institutions must include the following information in the transmittal:

The name of the transmittor;

The account number of the transmittor;

The address of the transmittor;

The identity of the transmittor’s financial institution;

The amount of the transmittal order;

The execution date of the transmittal order;

The identity of the recipient’s financial institution;

And, if received:

The name of the recipient;

The address of the recipient;

The account number of the recipient;

Any other specific identifier of the recipient.

The Travel rule requires that intermediary financial institutions to pass on all information received from the transmittor’s financial institution or an intermediary financial institution.

All transmittal orders from a transmittor who is a non-customer must obtain the same information listed above and the following information:

1. If the transmittal is made in person, the identity of the person placing the order must be identified. The Company must obtain and retain a record of the name and address, type of information reviewed (e.g., driver’s license), as well as the taxpayer identification number or, if none, alien identification number or passport number and country of issuance, or if none, the file must be so noted. If the person placing the order is not the transmittor, the Company must obtain and retain a record of the name and address, type of information reviewed (e.g., driver’s license), as well as the taxpayer identification number or, if none alien identification number or passport number and country of issuance, or if none the file must be so noted.
2. If the transmittal is not made in person, the identity of the person placing the order must be identified. The Company must obtain and retain a record of the name and address, type of information reviewed (e.g., driver’s license), as well as the taxpayer identification number or, if none alien identification number or passport number and country of issuance, or if none the file must be so noted. If the person placing the order is not the transmittor, the Company must obtain and retain a record of the name and address, type of information reviewed (e.g., driver’s license), as well as the taxpayer identification number or, if none alien identification number or passport number and country of issuance, or if none the file must be so noted.

All transmittal orders from a recipient who is a non-customer must obtain the same information listed above and the following information:

1. If the proceeds are delivered in person, the identity of the person placing the order must be identified. The Company must obtain and retain a record of the name and address, type of information reviewed (e.g., driver’s license), as well as the taxpayer identification number or, if none alien identification number or passport number and country of issuance, or if none the file must be so noted. If the person placing the order is not the recipient, the Company must obtain and retain a record of the name and address, type of information reviewed (e.g., driver’s license), as well as the taxpayer identification number or, if none alien identification number or passport number and country of issuance, or if none the file must be so noted.
2. If the proceeds are not delivered in person, the Company must retain a copy of the check or other instrument used to effect payment, or the information contained thereon, as well as the name and address of the person to which it was sent.

**Exceptions**

If the transmittor and the beneficial recipient are the same person, and the transmittor’s financial institution and the recipients are the same domestic bank or domestic securities broker.

If both the transmittor and beneficial recipient are any of the following, then the transmittal is not subject to the rules:

* Domestic bank;
* Wholly owned domestic subsidiary of a domestic bank;
* Domestic broker or dealer in securities;
* Wholly owned domestic subsidiary of a domestic broker or dealer in securities
* United States; Federal Agency or instrumentality;
* State or Local Government;
* State or local agency or instrumentality.

It shall be the responsibility of Morris Monroe or Compliance to review the Company's books and records for compliance with the requirements of the Bank Secrecy Act.

### 7.5.4 The Money Laundering Control Act of 1986

This act created the crime of money laundering and made it illegal to structure transactions. Structuring transactions is the depositing of cash just below the $10,000 threshold or making deposits of less than $10,000 at multiple financial institutions. The following offenses are included in this act:

1. Knowingly helping laundering money from criminal activity;
2. Knowingly engaging in a transaction of more than $10,000 that involves property from criminal activity;
3. Structuring transactions to avoid the Bank Secrecy Act.

### 7.5.5 The Annuzio-Wiley Anti-Money Laundering Act

This act requires banks and certain other financial institutions to report suspicious activity even if the $10,000 threshold is not met.

Suspicious Activity Reports must be filed by the broker dealer if:

* Criminal acts (or attempts to commit criminal acts) against the Company or involving transactions through the Company, by an officer, director, employee, agent, or other party affiliated with the Company (termed “insiders” under this rule), if the Company has a substantial basis for identifying the guilty individual or individuals.
* Criminal acts (or attempts to commit criminal acts) against the Company, or involving transactions through the Company, in an aggregate amount of $5,000 or more in funds or other assets, if there is a substantial basis for identifying the guilty individual(s).
* Criminal acts (or attempts to commit criminal acts) against the Company, or involving transactions through the Company, in an aggregate amount of $25,000 or more in funds or other assets, whether or not the company can identify a suspect.
* Transactions (or attempts to engage in transactions) aggregating $5000 or more that the Company suspects are conducted for the purpose of money laundering, violating Bank Secrecy Act regulations, or violating any transaction reporting requirements under federal law.
* Transactions (or attempts to engage in transactions) aggregating $5000 or more that the Company suspects involve funds or other assets derived from criminal activity.
* Transactions (or attempted transactions) having no business or apparent lawful purpose, or that would not normally be expected for the particular customer involved, and the Company knows of no reasonable explanation for it after examining all the facts and circumstances.

The Treasury Department has the ability to impose sanctions against foreign governments, and their agents that sponsor terrorism and narcotics trafficking. This may include the freezing of assets, limitations on services, restrictions on trading and limitations on investment banking in these foreign countries. Embargoed countries that are currently under sanctions are: Balkans Related (includes Bosnia, Herzegovina, and Macedonia), Belarus, Myanmar (Burma), Central African Republic, Cuba, Democratic Republic of Congo (Zaire), Iran, Iraq, Liberia, Libya, Lebanon, North Korea, Somalia, Sudan Darfur, South Sudan, Syria, Ukraine-/Russia, Venezuela, Yemen, and Zimbabwe (which can be found at <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>).

Morris Monroe, or his designee, will examine any reports from the clearing broker indicating activity in each of the above categories.

### 7.5.6 Foreign Financial Account Reporting Requirements and Recordkeeping (FBAR)

Certain "United States persons" that maintain accounts (including any account where the person has a financial interest in, or signature or other authority over) in foreign jurisdictions and with aggregate balances exceeding $10,000 are required to file a Report of Foreign Bank and Financial Accounts (FBAR) Department of Treasury Form 114 with FinCEN on or before June 30th of each calendar year for accounts maintained during the previous calendar year. Morris Monroe or Compliance is responsible for filing any annual report that may become required for the Company.

The filing requirement applies to:

* Non-resident aliens and foreign entities "in and doing business" in the U.S.
* All forms of U.S. business entities, trusts, estates with foreign accounts.
* U.S. citizens and residents with signature or other authority over a foreign account.
* Trust beneficiaries with a greater than 50% beneficial interest in a trust with a foreign account.
* U.S. citizens and resident stockholders with greater than 50% of the value or vote of the shares of a corporation with foreign accounts.
* Entities that are disregarded for tax purposes, such as limited liability companies.

The filing requirement does not apply to certain entities or situations. The regulation should be consulted for specific exemptions or conditions of exemptions.

* If the account is maintained in the United States, it is not considered a foreign account even if it holds foreign assets.
* An omnibus account held by a custody bank that holds assets both in the U.S. and outside the U.S. is not considered a foreign account unless the customer has direct access to its foreign holdings maintained at the foreign institution.
* Certain entities are excluded including: foreign hedge funds, venture capital funds, or private equity funds; tax-exempt investors that own offshore "blocker corporations;" government pension funds; pension plan participants and IRA owners (provided the trustee files a FBAR); investment advisers and employees of such advisers that provide advice to SEC-registered entities; remainder interests in trusts and beneficiaries of discretionary trusts; employees of a U.S. or foreign entity that issued a class of foreign equity (including ADRs) registered with the SEC.

There are also exemptions for officers or employees with signature or other authority over certain foreign financial accounts but no financial interest in the reportable account. The regulation will be consulted for details regarding who is not required to notify FinCEN regarding signature or other authority over such an account if applicable.

## 7.6 Money Laundering Procedures and Prevention

All registered representatives and supervisory personnel should be aware of the techniques for detecting money laundering and adhering to these guidelines.

1. The Company will not accept any accounts for foreign banks offshore accounts. In addition, the Company will not open any private banking or foreign official accounts. Company generally does not accept alien accounts; however, Morris Monroe will review on a case-by-case basis to determine if Company will accept such accounts and Company will indicate in WinOps or the New Account Form his initialed (or signature) review and date if applicable. Such Accounts will also be marked in WinOps with an AML Risk Level of Medium or High (depending on nature of account and activity type – i.e. brokerage account vs direct mutual fund account, etc.).
2. The Company will not accept any checks drawn on a foreign bank. Only domestic bank checks will be accepted. Any wire to/from a foreign destination must be pre-approved by Morris Monroe only. The Company does not accept cash. No accounts are opened online. The Company does not accept anonymous or numbered accounts. Upon finding or suspecting such accounts, Company employees will notify Morris Monroe who will terminate any verified such account. Caution will be exercised regarding liquidation of such accounts and take reasonable steps to ensure that no new positions are established in these accounts during the termination period.
3. The Company strictly prohibits any accounts and transactions for persons or entities and securities pursuant to Executive Order #13224 through the Office of Foreign Assets Control. A direct link to the OFAC website for a list of such persons, entities or securities is provided through the WSC or FINRA websites and WinOps software program to check the list prior to opening accounts or conducting transactions (website <http://apps.finra.org/rulesregulation/ofac/1/Default.aspx>).

### 7.6.1 Customer Identification Program (CIP) and Customer Due Diligence (CDD)

When opening new accounts, the customer's identity must be verified, as required by federal law. Customer identification (ID) information must be completed on the new account application. This includes, under FinCEN's requirements:

1. customer identification and verification (State issued ID, Driver’s License, Passport);
2. beneficial ownership identification and certification;
3. understanding the nature and purpose of customer relationships; and
4. ongoing monitoring for reporting suspicious transactions and, on a risk basis maintaining and updating customer information.

**Definitions**

The regulations should be consulted for more complete definitions.

1. **Legal entity customer**: corporation; limited liability company; another entity created by a public filing with a Secretary of State or equivalent; general partnership; limited partnership; business trust created through a state filing; or any similar entity formed under federal law. Does not include sole proprietorships, unincorporated associations, and natural persons opening their own account. Other exclusions are a federal- or state-regulated financial institution; political departments and agencies of the U.S. or a State; various different types of entities registered with the CFTC or SEC; and other entities included in the regulation.
2. **Beneficial owner**: each individual, if any, who directly or indirectly owns 25% or more of the equity interests of a legal entity customer (i.e. the ownership prong); and a single individual with significant responsibility to control, manage, or direct a legal entity (*e.g.,* CEO, CFO, Managing Member, General Partner, Officer, etc.), or any other individual who regularly performs similar functions (i.e. the control prong).
3. **Ownership and control prongs**: The CDD rule utilizes a two-pronged approach to defining a beneficial owner - an ownership prong and a control prong. Under the ownership prong, a beneficial owner is defined as each individual, if any, who, directly or indirectly, owns 25 percent or more of the equity interests of a legal entity customer. However, the rule recognizes that there may be instances when no single individual owns 25 percent or more of the equity interest of the legal entity; in such instances, the Company is still required to collect the required information for one individual who controls, manages or directs the legal entity customer. Under the control prong, a beneficial owner is defined as a single individual with significant responsibility to control, manage or direct a legal entity customer, including an executive officer or senior manager (e.g., a chief executive officer, chief financial officer, chief operating officer, managing member, general partner, president, vice president or treasurer) or any other individual who regularly performs similar functions. The ownership and control prongs, although related, are independent requirements. Thus, satisfaction of, or exclusion from, regulatory obligations under one prong does not mean the Company's obligations under the other prong are also satisfied or excluded.

**Know Your Customer (KYC)**

Learn the customer’s true identity**. Know your customer!** At a minimum, the Company will reasonably (1) verify the identity of any person seeking to open an account, to the extent reasonable and practicable; (2) maintain records of the information used to verify the person’s identity; and (3) determine whether the person appears on any lists of known or suspected terrorists or terrorist organizations provided to brokers or dealers by any government agency.

Where possible, obtain photo identification of customer such as driver’s license or passport. Attempt to meet face-to-face with the customer. Check and make sure they are not on the sanctioned list. In addition, undertake reasonable efforts to obtain the following information at the commencement of the business relationship:

* Name and address of customer. Obtain a physical address if a post office box is given for the mailing address.
* Date of Birth
* Social Security number or Tax Identification Number
* Investment Objectives
* Investment Experience
* Net Worth and Annual Income (excluding primary residence)
* Occupation and Employment date, including Employer’s address (this is usually customer’s source of income) and including whether the person is associated with a broker dealer
* For non-natural person entities, obtain further documentation as to who has authority to transact business for the account (i.e. Partnership Agreements, Trust Documents, Articles of Incorporation and Corporate Resolutions, etc.) and authorized transactions. For Institutional accounts, further due diligence should be conducted due to the sophisticated level of experience or investment objectives and transaction volume often associated with institutional accounts verses traditional retail business. Factors to consider would be (1) has the institution developed anti-money laundering procedures; (2) does the Company have any past experience with the institution or authorized persons; (3) is the institution a registered financial institution based in a major regulated financial center or is a registered financial institution located in a Financial Action Task Force (FATF) jurisdiction; (4) does the institution have a reputable history in the investment business; (5) make sure the institution is not from a jurisdiction characterized as an offshore banking or secrecy haven or is not under the jurisdiction or control of a foreign country.

**Legal Entities** – (as defined above and effective May 11, 2018) information must be obtained and verified regarding beneficial owners. Obligations when opening accounts that include underlying owners or beneficiaries include the following:

* Determine whether the customer is acting as an agent for or on behalf of another, and if so, obtaining information regarding the capacity in which and on whose behalf the customer is acting.
  + Where the customer is a legal entity that is not publicly traded in the United States, such as an unincorporated association, a private investment company (PIC), trust or foundation, obtain information about the structure or ownership of the entity so as to allow the Firm to determine whether the account poses heightened risk.
  + Where the customer is a trustee, obtain information about the trust structure to allow Company to establish a reasonable understanding of the trust structure and to determine the provider of funds and any persons or entities that have control over the funds or have the power to remove the trustees.
  + Obtain the identities of individuals who satisfy the definition as beneficial owners, either directly or indirectly through multiple corporate structures (complex ownership structures).
  + Obtain from the legal entity customer's representative a completed certification form identifying beneficial owners; updating information may require re-certification [<https://www.fincen.gov/resources/filing-information>]
  + Determine the nature and purpose of the customer relationship to determine risk profiles and identify the need for additional monitoring.

Identifying information will be maintained for a period of five years after the legal entity's account is closed. Verification records must be maintained for a period of five years after the record is made. Company will also retain any non-documentary methods and results of measures undertaken for verification and the resolution of substantive discrepancies discovered in identifying and verifying the identification information for five years after the record is made.

* **Reliance on Customer Representations**

Company may reasonably rely on information provided by customers if it has no knowledge of facts that would call into question the reliability of the information.

* There is no requirement to independently investigate a legal entity customer's ownership structure.
* Company may rely on information provided by the customer to determine if the legal entity is excluded from the definition of legal entity customer.
* **Enhanced Due Diligence (EDD)**

Some types of accounts, because of the potential risk for hiding the identity of underlying beneficial owners or money laundering activities, are subject to enhanced due diligence. The AML Compliance Officer will determine which accounts are subject to EDD and what reviews are necessary. Certain trusts, corporate entities, shell entities, and private investment companies are examples of customers that may pose heightened risk.

EDD may include steps, in accordance with the level of risk presented, to identify and verify beneficial owners, to reasonably understand the sources and uses of funds in the account, and to reasonably understand the relationship between the customer and the beneficial owner. EDD information may be used for monitoring purposes and to determine whether there are discrepancies between information obtained regarding the account's intended purpose and expected account activity and the actual sources of funds and uses of the account.

* **Using Government Provided Lists of Terrorists and Other Criminals**: before or within 30 days of opening an account, the Company will check to ensure that the customer does not appear on the OFAC Specially Designated Nationals and Blocked Persons list and that the customer is not from or engaging in transactions with people or entities from embargoed countries and regions listed on the OFAC website (<http://apps.finra.org/rulesregulation/ofac/1/Default.aspx>). Any review will be documented and made a part of the Company’s records. Anyone appearing on the SDN list or is from or engaging in transactions with a person or entity located in an embargoed country or region, we will reject the transaction and or block the customer’s assets and file a blocked assets and/or rejected transaction form with OFAC.
* **Reliance on other Financial Institutions**

Company may rely for CIP purposes on another financial institution (including an affiliate) that opens a customer account provided that:

* + reliance is reasonable under the circumstances;
  + the other financial institution is subject to anti-money laundering requirements [U.S.C. 5318(h)] and is regulated by a Federal regulator; and
  + the other financial institution enters into a contract requiring it to annually certify that it has implemented its AML program and it will perform (or its agent) specified requirements of Woodlands Securities Corp's CIP.

### 7.6.2 Non-Documentary Means

The Company will only use non-documentary verification methods, if necessary, when it is unable to verify information from documentary methods or is presented with unfamiliar documents. The Company does not open accounts online and seldom opens accounts via mail or telephone. Therefore, this method will only be used when the Company deems it necessary in the above instances. In those cases, the Company will contact the customer after the account has been opened and may use an outside database such as Equifax to review and compare information provided by the customer.

Based on the risk, and to the extent reasonable and practicable, Company will ensure that it has a reasonable belief that it knows the true identity of its customers by using risk-based procedures to verify and document the accuracy of the information obtained from customers. In verifying customer identity, Company will analyze any logical inconsistencies in the information obtained.

Customer identity will be verified through documentary evidence, non-documentary evidence, or both. Documents will be used to verify customer identity when appropriate documents are available. In light of the increased instances of identity fraud, Company will supplement the use of documentary evidence by using the non-documentary means described below whenever possible. Company may also use such non-documentary means, after using documentary evidence, if still uncertain about whether the true identity of the customer is known.

Appropriate documents for verifying the identity of natural persons include the following:

* An unexpired driver’s license, passport, or other government identification showing nationality, residence, and photograph or other biometric safeguard, or, for non-U.S. persons, an unexpired alien registration card or other government issued identification showing nationality, residence, and photograph or other biometric safeguard.

The following documents are appropriate for verifying the identity of businesses:

* A certificate of incorporation, a government-issued business license, any partnership agreements, any corporate resolutions, or similar documents.

Verification of customer identity through the use of non-documentary evidence is mandatory in the following situations: (1) when the customer is unable to present an unexpired identification card with a photograph or other biometric safeguard; (2) when the documents the customer presents for identification verification are unfamiliar to the Company; (3) when the customer and Company do not have face-to-face contact; and (4) when there are other circumstances that increase the risk that the Company will be unable to verify the true identity of the customer through documentary means. Under these circumstances, the following non-documentary methods will be used to verify identity:

* Contact the customer after the account has been opened (although Company cannot rely solely on customer contact as a means for verification);
* Financial statements, if applicable, or 1st page of Form 1040 from the customer;
* Compare information obtained from the customer against databases, such as Equifax, Experian, Lexis/Nexus, or other in-house or custom databases;
* Compare information obtained from customer with information available from a trusted third-party source (such as a credit report);
* Check references with other financial institutions; and
* Any other non-documentary means deemed appropriate.

Company personnel will verify the information at the time new accounts are opened, if possible, but in most situations no later than 30 days after opening. However, Company recognizes that there may be situations where even a five-day delay will be too long. Depending on the nature of the account and requested transactions, Company may refuse to complete a transaction before it has verified the information, or in some instances when more time is needed, it may restrict the types of transactions or dollar amount of transactions pending verification or determine whether to close the account at that time. Company will document verification, including all identifying information provided by a customer, the methods used and results of verification, and the resolution of any discrepancy in the identifying information. Company will maintain those records for five years after the account has been closed or the customer's trading authority over the account has ended.

As required under the BSA, Company will record a current passport number or other valid government identification number for transfers or transmittals of $3,000 or more by or for non-resident alien accounts, if ever applicable.

### 7.6.3 Using Government Provided Lists of Terrorists and Other Criminals

Before opening an account, and periodically, Company will check to ensure that a customer does not appear on a list provided to us by the government, like Treasury’s OFAC “Specially Designated Nationals and Blocked Persons” List (SDN List) (See the OFAC Web Site at [*www.treas.gov/ofac*](http://www.treas.gov/ofac), which is also available through an automated search tool on [*http://apps.finra.org/rulesregulation/ofac/1/Default.aspx*](http://apps.finra.org/rulesregulation/ofac/1/Default.aspx)), and is not from, or engaging in transactions with people or entities from, embargoed countries and regions listed on the OFAC Web Site. Because the OFAC Web Site is updated frequently, we will consult the list on a regular basis and subscribe to be sent updates when they occur. Company may access these lists through various software programs to ensure speed and accuracy. In addition, the Company will conduct searches against its database when emails are received from FinCEN and respond if any applicable accounts exist. After conducting the search, a copy of the FinCEN review will be maintained in a WORD document report as evidence of the search.

In the event that Company determines a customer, or someone with or for whom the customer is transacting, is on the SDN List or is from or engaging in transactions with a person or entity located in an embargoed country or region, Company will reject the transaction and/or block the customer's assets and file a blocked assets and/or rejected transaction form with OFAC. Company will also call the OFAC Hotline at 1-800-540-6322.

### 7.6.4 Supervisory Procedure

The new account opening procedure collects and uses information on the account holder’s wealth, net worth, anticipated transaction activity, and sources of income to detect and deter possible money laundering and terrorist financing. The sales supervisor’s review will be documented and reviewed.

### 7.6.5 Monitoring

If a customer is unwilling to provide identification documents or other information to open a new account, exhibits unusual concern about secrecy, insists on using a post office box without providing a physical address, indicates that he/she can be reached by a cell phone or pager only, or appears to provide intentionally misleading information, the Company can refuse to open a new account and, after considering the risks involved, consider closing any existing account. In either case, notify Morris Monroe or Compliance immediately. He will then determine whether we should report the situation to FinCEN. In addition:

1. Inquire about the source of funds being deposited to the account. Are the funds from savings, current income, or inheritance? Transfer instructions, proof of employment or proof of inheritance may be required. If the account is for a commercial account, financial statements, minutes and names of officers and a description of the business may be obtained.
2. Obtain the customer’s investment objectives, risk tolerance and inquire about the frequency of deposits and withdrawals. If the customer shows no regard for costs, risk or commissions, this could indicate money laundering.
3. **Transferred Accounts** – Company will still consider the scenarios above in deciding if the risks of a particular transferred account require obtaining and verifying information from the transferred customer.
4. **Monitoring Accounts -** Review customer accounts for abnormal activity on a daily basis. Deposits in excess of stated income; wires that come in and are immediately wired out; improper remarks made by the customer; accounts with cash and no activity; accounts that are opened, funded and closed quickly; accounts with multiple wires to different locations; multiple signatories on the account; or a change in the pattern of activity may indicate money laundering. Transactions should be viewed in the context of other account activity and a determination of whether the transaction is actually suspicious will necessarily depend on the customer and the particular transaction, compared with the customer’s normal business activity. Unusual or questionable transactions may include transactions that appear to lack a reasonable economic basis or recognizable strategy based upon what the Company and Associated Person know about the particular customer. Following are examples of potential indicators of suspicious activity, which if unexplained may indicate money laundering activity.

#### Indicators at the Account Opening Stage:

* A customer exhibits an unusual concern regarding the Company’s compliance with government reporting requirements, particularly with respect to his/her identity, type of business and assets, or is reluctant or refuses to reveal any information regarding business activities, or furnishes unusual or suspect identification or business documents;
* A customer wishes to engage in transactions that lack business sense, apparent investment strategy, or are inconsistent with the customer’s states business strategy;
* A customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations;
* A customer appears to be acting as the agent for another entity but declines, evades or is reluctant, without legitimate commercial reasons, to provide any information in response to questions about the entity; and
* A customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her identity.

#### Indicators Related to Account Activity:

* A customer attempts to make frequent or large deposits of currency, insists on dealing only in cash equivalents or asks for exemptions to the Company’s policies relating to the deposit of cash and cash equivalents;
* A customer engages in transactions involving cash over $10,000 or cash equivalents or other monetary instruments that appear to be structured to avoid government reporting requirements, especially if the monetary instruments are in an amount just below reporting or recording thresholds and/or are sequentially numbered;
* A customer engages in multiple transfers of funds or wire transfers to and from countries that are considered bank secrecy “tax havens” that have no apparent business purpose or are to or from countries listed as non-cooperative by FATF (Financial Action Task Force) and FinCEN, or are otherwise considered by the Company to be high-risk;
* A customer’s account has unexplained or sudden extensive wire activity, where previously there had been little or no wire activity without any apparent business purpose;
* A customer has a large number of wire transfers to unrelated third parties;
* A customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm without any apparent business purpose;
* A customer makes a funds deposit, for the purpose of purchasing a long-term investment, followed shortly thereafter by a request to liquidate the position and a transfer of the proceeds out of the account;
* For no apparent reason, a customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers;
* A customer engages in excessive journal entries between unrelated accounts without any apparent business purpose;
* A customer requests that a transaction be processed in such a manner so as to avoid the Company’s normal documentation requirements;
* A customer engages in transactions involving certain types of securities, such as penny stocks, Regulation “S” stocks and bearer bonds, which, although legitimate, have been utilized in connection with fraudulent schemes and money laundering activity (i.e. a customer deposits penny stock, liquidates, and wires funds. A request to liquidate shares of penny stock may also represent engaging in an unregistered distribution of penny stocks and may also be a red flag);
* A customer deposits bearer bonds followed by immediate request for the disbursement of funds;
* A customer engages in excessive annuity transactions which result in cancellations during the free look period; and
* A customer exhibits a total lack of concern regarding risks, commissions, or other transactions costs.
* A customer opens an LLC account and the affiliated name(s) are unknown.
* DVP/RVP accounts that use brokers to liquidate large volumes of low-priced securities may be a red flag for AML concerns. Such accounts should be the subject of reasonable inquiry to determine the source of the securities and to identify potential money laundering and registration issues. Company is responsible for AML inquiries unless there is a formal undertaking by the customer's prime broker.

### 7.6.6 Additional Monitoring of Accounts

Company will monitor accounts through the HTS system and applicable reports for unusual size, volume, pattern or type of transactions. New Account forms, Daily blotters, Money Reports, and Compliance Reports will be reviewed daily by the back office for detection of any of the above activity. The AML Reports are reviewed by Laura Hendricks or her Compliance Department designee and for certain reports, they will be copied to a WORD file as evidence of review and maintained for Company records. Any questionable activity will be reported to Morris Monroe or Laura Hendricks immediately.

HTS – AML available Reports:

1. **AML – Cash Movements**: Money in and out of accts (including checks and wires) reviewed at least bi-weekly by LMH but typically sooner. Reports are saved to a WORD file as evidence of review.
2. **AML High Risk Jurisdiction**: any accounts in high-risk jurisdictions – report is reviewed monthly by LMH and by GS daily. Any applicable accounts would be reviewed, disclosed to Morris Monroe, restricted and/or frozen or closed if applicable. Any reviews and actions would be recorded and documented in WinOps as well as attached to the AML audit report.
3. **AML – No Physical Address**: any accounts listed with only a P.O. Box for mailing address – report is checked daily by Operations for applicable accounts. Any applicable reports are printed with follow up noted and maintained in central location notebook. Each account is reviewed for active status, reviewing the customer file for a physical address, checking with the RR to obtain and then the account is updated with a physical address in HTS. If we do not have one, a letter is generated and sent to the customer to obtain the physical address which is followed up with a verification letter if applicable.
4. TEFRA Status: report shows accounts missing the W-9 or tax ID – all the accounts that show up are ordinarily deleted from the list within a few days when the forms are submitted to HTS subsequent to opening the account. This report is monitored daily for any accounts that may continue to stay on the list for proper follow-up and or record retention.
5. AML Trend Report: helps to detect certain structuring scenarios which may involve multiple receipts and disbursements over a period of time. The report provides cash activity over three months and links activity to any related accounts.
6. Red Flags Rule Report: Reports items such as:

* Accounts Opened with an Address matching existing Account;
* Accounts Opened with a Phone Number matching existing Account; and
* Accounts Opened with a Taxpayer ID matching existing Account .

1. AML Missing Elements: Reports other missing items (other than Physical Address – i.e. missing name, tax id, dob).

If the Company detects any red flag, it will investigate further under the direction of the AML Compliance Officer. This may include gathering additional information internally or from third party sources, contacting the government, freezing the account, and filing a SAR.

If a registered representative is uncomfortable with a transaction, he/she should report it to Morris Monroe. Any account designated as suspicious will be frozen by contacting HTS Cashiering Department via email at [credit@hilltopsecurities.com](mailto:credit@hilltopsecurities.com) to freeze the account. This will be followed by a telephone call to (214) 651-1800 to confirm instructions and completion. Further transactions are prohibited pending investigation and further notice.

### 7.6.7 Customer Notice

The Company will provide notice to customers that it is requesting information from them to verify their identities as required by Federal Law. The Company will post a sign in the lobby of all branches as well as provide either oral or written notice at the time of the account opening process.

### 7.6.8 Foreign Correspondent Accounts and Foreign Shell Banks

The Company does not open or maintain accounts for foreign financial institutions. However, in the event a foreign account is detected, it will be reported to Morris Monroe immediately, who will terminate any verified correspondent account in the United States for an unregulated foreign shell bank and determine if a SAR should be filed. We will also terminate any correspondent account that we have determined is not maintained by an unregulated foreign shell bank but is being used to provide services to such a shell bank. We will exercise caution regarding liquidating positions in such accounts and take reasonable steps to ensure that no new positions are established in these accounts during the termination period. We will terminate any correspondent account for which we have not obtained the information described in Appendix A of the proposed regulations regarding shell banks within the time periods specified in those regulations (*Rules: FINRA Rule 3310; Section 313 of the PATRIOT Act; 31 C.F.R. §§104.10 et seq. (proposed regulations).*

### 7.6.9 Private Banking Accounts/Foreign Officials

A "private banking" account is an account that requires a minimum deposit of $1,000,000, is established for one or more individuals, and is assigned to or administered or managed by, in whole or in part, an officer, employee, or agent of a financial institution acting as a liaison between the financial institution and the direct or beneficial owner of the account.

The Company does not open or maintain private banking accounts or foreign official accounts. However, we will review our accounts to determine whether we offer any "private banking" accounts and we will conduct due diligence on such accounts. This due diligence will include, at least, (1) ascertaining the identity of all nominal holders and holders of any beneficial ownership interest in the account (including information on those holders' lines of business and sources of wealth); (2) ascertaining the source of funds deposited into the account; (3) ascertaining whether any such holder may be a senior foreign political figure; and (4) reporting, in accordance with applicable law and regulation, any known or suspected violation of law conducted through or involving the account. Any private banking or foreign official account detected will be reported to Morris Monroe who will determine to not open the account, suspend the transaction activity, file a SAR, or close the account.

### 7.6.10 Investment Advisor Accounts

Company may rely on RIA, an SEC registered investment advisor to satisfy CIP requirements for RIA accounts through Company as the broker/dealer. Both companies have similar CIP procedures, share employees, and access to documentation. Any suspicious activity would be shared between companies.

### 7.6.11 Risk Factors

The following provide further examples of risk indicators (red flags) that may suggest potential money laundering.

|  |
| --- |
| ***Customer accounts (opening, other activities related to establishing accounts)*** |
| The customer exhibits unusual concern regarding Company's compliance with government reporting requirements and the Company’s AML policies, particularly with respect to his or her identity, type of business and assets, or is reluctant or refuses to reveal any information concerning business activities or furnishes unusual or suspect identification or business documents. |
| The customer is reluctant to provide complete information about nature and purpose of business, prior banking relationships, anticipated account activity, officers and directors or business location. |
| The customer's background is questionable or differs from expectations based on business activities. |
| The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect or refuses to provide information. |
| The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations. |
| The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity. |
| The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry. |
| The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the Financial Action Task Force (FATF). |
| The customer has no discernible reason for using the Company's service. |
| ***Customer account transactions*** |
| The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs. |
| The customer wishes to engage in transactions that lack business sense or apparent investment strategy or that are inconsistent with the customer's stated business strategy. |
| The customer engages in suspicious activity involving the practice of depositing penny stocks, liquidates them, and wires proceeds. A request to liquidate shares may also represent engaging in an unregistered distribution of penny stocks which may also be a red flag. [FINRA Regulatory Notice 09-05] |
| The customer attempts to make frequent or large deposits of currency, insists on dealing only in cash equivalents, or asks for exemptions from the Company's policies relating to the deposit of cash and cash equivalents. |
| The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the $10,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds. |
| For no apparent business purpose or other reason, the customer has multiple accounts under a single name or multiple names (including family members or corporate entities); there may be a large number of inter-account or third-party transfers. |
| The customer's account shows numerous currencies or cashier’s check transactions aggregating to significant sums. |
| The customer requests that a transaction be processed in such a manner to avoid the Company's normal documentation requirements. |
| The customer's account shows an unexplained high level of account activity with very low levels of securities transactions. |
| Transactions patterns show a sudden change inconsistent with normal activities. |
| The customer engages in prearranged or other non-competitive trading, including wash or cross trades of illiquid securities. |
| Two or more accounts trade an illiquid stock suddenly and simultaneously. |
| The customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason. |
| Customer transactions include a pattern of receiving stock in physical form or the incoming transfer of shares, selling the position and wiring out proceeds. |
| Customer's trading patterns suggest that he or she may have inside information. |
| The customer, for no apparent reason or in conjunction with other "red flags," engages in transactions involving certain types of securities, such as penny stocks, Regulation "S" (Reg S) stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.) |
| Large numbers of securities transactions across a number of jurisdictions. |
| Buying and selling securities with no purpose or in unusual circumstances (e.g., churning at customer's request). |
| ***Penny Stock Company Related Transactions*** |
| Company has no business, no revenues and no product. |
| Company has experienced frequent or continuous changes in its business structure. |
| Officers or insiders of the issuer are associated with multiple penny stock issuers. |
| Company undergoes frequent material changes in business strategy or its line of business. |
| Officers or insiders of the issuer have a history of securities violations. |
| Company has not made disclosures in SEC or other regulatory filings. |
| Company has been the subject of a prior trading suspension. |
| ***Customer avoidance of reporting and recordkeeping*** |
| Reluctant to provide information needed to file reports or fails to proceed with transaction. |
| Tries to persuade an employee not to file required reports or not to maintain required records. |
| "Structures" deposits, withdrawals or purchase of monetary instruments below a certain amount to avoid reporting or recordkeeping requirements. |
| ***Transactions involving insurance products*** |
| Cancels an insurance contract and directs funds to a third party. |
| Structures withdrawals of funds following deposits of insurance annuity checks signaling an effort to avoid BSA reporting requirements. |
| Rapidly withdraws funds shortly after a deposit of a large insurance check when the purpose of the fund withdrawal cannot be determined. |
| Cancels annuity products within the free look period which, although could be legitimate, may signal a method of laundering funds if accompanied with other suspicious indicia. |
| Opens and closes accounts with one insurance company then reopens a new account shortly thereafter with the same insurance company, each time with new ownership information. |
| Purchases an insurance product with no concern for investment objective or performance. |
| Purchases an insurance product with unknown or unverifiable sources of funds, such as cash, official checks or sequentially numbered money orders. |
| ***Customer wire and other transfers or deposits*** |
| The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity. |
| The customer's account has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose. |
| The customer's account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven. |
| The customer's account indicates large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose. |
| The customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm, without any apparent business purpose. |
| The customer makes a funds deposit for the purpose of purchasing a long-term investment followed shortly thereafter by a request to liquidate the position and transfer of the proceeds out of the account. |
| The customer engages in excessive journal entries between unrelated accounts without any apparent business purpose. |
| The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer. |
| Many small, incoming wire transfers or deposits made using checks and money orders almost immediately withdrawn or wired out in manner inconsistent with customer's business or history. May indicate a Ponzi scheme. |
| Physical certificate is titled differently than the account. |
| Physical certificate does not bear a restrictive legend but based on history of the stock and/or volume of shares trading, it should have such a legend. |
| Customer's explanation of how he or she acquired the certificate does not make sense or changes. |
| Customer deposits the certificate with a request to journal the shares to multiple accounts, or to sell or otherwise transfer ownership of the shares. |
| ***Other indicators*** |
| Law enforcement subpoenas. |
| Payment by third-party check or money transfer without an apparent connection to the customer. |
| Payments to third-party without apparent connection to customer. |
| No concern regarding the cost of transactions or fees (*i.e.,* surrender fees, higher than necessary commissions, *etc.*). |

Following are risk factors identified by **OFAC** that may warrant a heightened level of scrutiny for the type of accounts accepted by Company:

a) High number of international transactions or wires, cross-border transactions or wires, or investments in a foreign exchange;

b) Foreign Securities: Practical exposure increases when investing in a foreign investment fund or exchange due to the risk that the securities may be issued by a sanctioned country or party or otherwise in violation of OFAC sanctions. This may include i) cross-border settlements involving the interaction of different settlement systems and laws in different countries, ii) foreign securities that may be more prone to misidentification in the course of a trade such as similar names between two foreign issuers, iii) foreign companies that issue shares in bearer form;

c) Very high net worth institutional accounts, hedge funds, funds of hedge funds and other alternative investment funds (private equity, venture capital funds) may have i) a lack of transparency regarding securities/investments and beneficial owners, ii) a US hedge fund with an offshore related fund where beneficial owners are offshore investors, and iii) subscription funds that originate from or are routed through an account maintained at an offshore bank or organized or chartered in an inadequately supervised and poorly regulated jurisdiction, or a foreign shell bank.

Additional risk factors that may constitute a heightened level of scrutiny include:

a) Limited Liability Companies whose direct or indirect owners may be difficult to identify;

b) Customers, who after reasonable attempts, do not provide required identifying documents;

c) Uncommon or unusual account activity

Customer Accounts will be assigned a risk level of High, Medium, or Low based on any of the above risk factors.

**High**: Accounts will be coded as a “High” based on some of the following criteria:

* + A determined risk level depending based on suspicion and multiple red flags at the account opening stage;
  + Multiple red flags as noted in Section 7.6.6 for account activity; and
  + If the account meets some of the above listed Risk Level factors of this Section 7.6.10.

**Medium**: Accounts will be coded as “Medium” if less suspicious activity occurs as noted in the High category but still may raise one or more red flags at the account opening or account activity stages or the above Risk Level categories (i.e. account type, coupled with red flag(s)).

**Low**: Accounts will be coded as Low as long as there are no red flags at the account opening or account monitoring stage.

Accounts are monitored at both the account opening and account activity stages as noted above in Sections 7.6.1 through 7.6.6. Accordingly, any heightened scrutiny of such accounts will be brought to the attention of the AML Compliance Officer and any investigations or reviews will be documented and maintained in WinOps unless the documentation is of such a confidential nature than it will be stored in a separate, secured file in the AML Compliance Officer’s office.

Heightened scrutiny may include:

1. Transaction activity logs;

2. Cash movement activity reviews;

3. Suspend or hold accounts until pending review or ultimately closing account;

4. Filing a SAR

### 7.6.12 Reports of AML Non-Compliance and Other Potential Crimes

All violations or suspected violations or crimes must be reported to the AML Compliance Officer. This includes suspicion that the Company is being used as a conduit for criminal activity such as money laundering or structuring transactions to evade the Bank Secrecy Act reporting requirements. Since a clear definition of a crime is sometimes unclear, it an individual believes some improper or illegal activity is occurring is obligated to report it. If the potential violation implicates the AML Officer, it should be reported to a senior officer of the Company. All reports are confidential and reporting individuals will not suffer any retaliation for making such reports.

### 7.6.13 Foreign Currency Transactions

Foreign financial institutions may purchase U.S.-denominated bonds, generally issued by foreign governments, with the local currency, which are then transferred to a U.S. broker-dealer and sold, with proceeds then transferred offshore. U.S. broker-dealers act as intermediaries in these transactions and may receive foreign bonds or other securities worth millions of U. S. dollars without knowing who or how many underlying customers may be involved. RRs and the Company must be diligent about such transactions which may involve money laundering.

## 7.7 FinCEN and Subject Information Forms

Enforcement agencies (FinCEN, state, local, and certain foreign law enforcement agencies eligible to make requests) send requests to FinCEN's Secure Information Sharing System (SSIS). Company is required to review the SSIS bi-weekly to identify requests for information and to send required information within required time frames. Documentation of reviews including a confirmation page from SSIS and records of positive search results.

If Company receives a request from FinCEN (which requests information approximately every two weeks):

* The Company is required to conduct an immediate "one-time" search of its records (whether or not they are kept electronically) to determine whether the Company, at its home office or at one of its branches operating in the United States, maintains or has maintained accounts for, or has engaged in transactions with, any "named subject," that is, any individual, entity, or organization identified in the request.
* The Company is only required to search **current accounts and accounts** maintained by a named subject during the prior twelve (12) months, and **transactions not linked to an account** conducted by a named subject during the prior six (6) months.
* If a match is found, the Company should stop its search of the named subject. There is no need to continue searching the Company’s records regarding that subject, unless and until the Company has been contacted by the requesting federal law enforcement agency for additional information. However, the Company should continue to search its records for an account or transactions matching *any other* named subject in the request.
* The Company is required to notify FinCEN **immediately** if the Company matches an account or transaction with a named subject. The Company must report any match to FinCEN by completing a Subject Information Form (one form per request). The Form only requires an "X" be placed next to the particular named subject for which a match that was found, and to provide point-of-contact information. The Form containing the positive matches must be sent to FinCEN by electronic mail at [sys314a@fincen.treas.gov](mailto:sys314a@fincen.treas.gov), or if for some reason the Company does not have e-mail, by facsimile transmission at 703-905-3660.
* If a match is found, the Company should not send any record of an account or a transaction (other than a report, as described above, notifying FinCEN of the match) when responding to the information request.
* If a match is found, the Company is required to provide FinCEN with information **identifying** Morris Monroe as the **point-of-contact** at the Company in charge of the Section 314(a) search and the person who may be contacted by the requesting federal law enforcement agency for additional information regarding the match (although this person does not have to be the Company's Anti-Money Laundering Compliance Officer).
* **If the Company does not uncover a match, then it does not have to reply to the request. Only matches should be reported.**
* Other than responding to and notifying FinCEN of a match, no other action is required by the request.
* Questions concerning a possible match with any named subject should be directed to the requesting federal law enforcement agency designated in the request.

***Use and Confidentiality***

*Firms generally may not disclose to any other person the fact that FinCEN has requested or obtained information, except to the extent necessary to comply with FinCEN's request. For purposes of assisting a firm in complying with a request, the firm may provide a list of named subjects identified in a request to a third-party service provider or vendor so long as it takes those steps necessary to ensure that the third party safeguards the information.*

***Questions***

*For further information about this and detailed instructions on how to comply with Section 314(a) requests, access:* [*www.fincen.gov/314a\_instructionsfinal.pdf*](http://www.fincen.gov/314a_instructionsfinal.pdf)*. FinCEN has also published "Frequently Asked Questions" on its website at* [*www.fincen.gov/314a\_faqsfinal.pdf*](http://www.fincen.gov/314a_faqsfinal.pdf)

*1 For more specific information concerning which records are required to be searched, go to* [*www.fincen.gov*](http://www.fincen.gov) *and view the detailed instructions for complying with Section 314(a) requests.*

### 7.7.1 Foreign Financial Account Reporting Requirements and Recordkeeping (FBAR)

Certain "United States persons" that maintain accounts (including any account where the person has a financial interest in, or signature or other authority over) in foreign jurisdictions and with aggregate balances exceeding $10,000 are required to file a Report of Foreign Bank and Financial Accounts (FBAR) Department of Treasury Form 90-22.1 with FinCEN on or before June 30th of each calendar year for accounts maintained during the previous calendar year. Certain U.S. persons with signature authority over, but no financial interest in, foreign financial accounts of their employers and entities related to their employers have an extension until June 30, 2013 to file Form 90-22.1 (see FinCEN Notice 2012-1). The FINOP is responsible for filing the annual report if it is required for the Company.

The filing requirement applies to:

* Non-resident aliens and foreign entities "in and doing business" in the U.S.
* All forms of U.S. business entities, trusts, estates with foreign accounts.
* U.S. citizens and residents with signature or other authority over a foreign account.
* Trust beneficiaries with a greater than 50% beneficial interest in a trust with a foreign account.
* U.S. citizens and resident stockholders with greater than 50% of the value or vote of the shares of a corporation with foreign accounts.
* Entities that are disregarded for tax purposes, such as limited liability companies.

The filing requirement does not apply to certain entities or situations. The regulation should be consulted for specific exemptions or conditions of exemptions.

* If the account is maintained in the United States, it is not considered a foreign account even if it holds foreign assets.
* An omnibus account held by a custody bank that holds assets both in the U.S. and outside the U.S. is not considered a foreign account unless the customer has direct access to its foreign holdings maintained at the foreign institution.
* Certain entities are excluded including: foreign hedge funds, venture capital funds, or private equity funds; tax-exempt investors that own offshore "blocker corporations;" government pension funds; pension plan participants and IRA owners (provided the trustee files a FBAR); investment advisers and employees of such advisers that provide advice to SEC-registered entities; remainder interests in trusts and beneficiaries of discretionary trusts; employees of a U.S. or foreign entity that issued a class of foreign equity (including ADRs) registered with the SEC.

There also are exemptions for officers or employees with signature or other authority over certain foreign financial accounts but no financial interest in the reportable account. The regulation should be consulted for details regarding who is not required to notify FinCEN regarding signature or other authority over such an account.

Morris Monroe, Laura Hendricks, or BackOffice personnel will be responsible for maintaining copies of all documentation, records, and communications relating to a reported transaction and will be maintained for a period of five years. SARs are confidential and may not be disclosed to any person involved in the transaction.

## 7.8 Sharing Information

1. **With Other Financial Institutions**

The Company may share information about those suspected of terrorism and money laundering with other financial institutions for the purposes of identifying and reporting activities that may involve terrorist acts or money laundering activities. The Company will file with FinCEN an initial certification before any sharing occurs and annual certifications thereafter.

The Company will use the certification form found at [www.fincen.gov/fi\_infoappb.html](http://www.fincen.gov/fi_infoappb.html). The Company will ensure that only relevant information is shared and protect the security and confidentiality of this information by keeping a separate file in Morris Monroe’s office. In addition, the Company will also share information about suspicious transactions with its clearing firm, Hilltop Securities, Inc. (HTS) for purposes of determining whether a SAR needs to be filed by either entity. In cases in which the Company files a SAR for a transaction that has been handled both entities, it may share with HTS a copy of the filed SAR, unless it would be inappropriate to do so under the circumstances, such as where the Company filed a SAR concerning HTS or one of its employees.

1. **Mandatory Sharing - Section 314(a) Requests:** The Company will respond to requests for information made by federal law enforcement agencies. FinCEN, on behalf of a requesting Federal law enforcement agency, may require the Company to search its records to determine whether Company has accounts for, or has engaged in transactions with, any specified individual, entity, or organization. These requests are often referred to as “Section 314(a) information requests.” The Company must report to FinCEN if it has any account or transactions matching the information listed on the information request. Morris Monroe is the designated contact person to receive the requests and must maintain the confidentiality of any request and any responsive reports to FinCEN.

### 7.8.1 HTS Clearing Firm Relationship

Company will work closely with HTS to detect money laundering. Company will exchange information, records, data and exception reports as necessary to comply with AML laws. Both Company and clearing firm will file (and keep updated) the necessary annual certifications for such information sharing, which can be found at <http://www.fincen.gov/fi_infoappb.html>. As a general matter, Company has agreed that its clearing firm will monitor customer activity on its behalf, and it will provide clearing firm with proper customer identification information as required to successfully monitoring customer transactions. Company has set out these responsibilities in its clearing agreement under FINRA Rule 3230. Company understands that the agreement will not relieve either of us from our independent obligation to comply with AML laws.

## 7.9 Internal Controls

In order to detect breeches of these procedures, the following controls have been implemented to help detect violations or breeches of the above.

* All new accounts are only opened at two locations.
* All new accounts are reviewed by at least three (3) individuals (i.e. RR, BackOffice personnel, Principal). This will enhance the due diligence process of detecting any account for suspicious activity or that is prohibited by Company policy. All new accounts are reviewed by the home office.
* Customer funds are deposited at only two locations. The one OSJ branch that conducts customer fund deposits also faxes their deposits to the home office for further review. Both branch back office personnel will be reviewing these deposits for detection of foreign banks and any cash deposits. If Company discovers currency has been received, it will file with FinCEN CTRs for transactions involving currency that exceed $10,000. Multiple transactions will be treated as a single transaction if they total more than $10,000 during any one business day. Company will use the CTR form at <http://www.fincen.gov/f4789-1.pdf>. Further, if applicable, Company willfile with the Commissioner of Customs a CMIR whenever the Company transports, mails, ships or receives or causes or attempts to transport, mail, ship or receive monetary instruments of more than $10,000 at one time (on one calendar day or, if for the purposed of evading the reporting requirements, on one or more days) in or out of the U.S. Company will file a CMIR for all such shipments or receipts of monetary instruments, except for currency or monetary instruments shipped or mailed through the postal service or by common carrier. Company will, however, file a CMIR for such receipts of currency and monetary instruments and for shipments and deliveries made by the Company by means other than the postal service or common carrier, even when such shipment or transport is made by the Company to an office of the Company located outside the U.S. We will use the CMIR Form at <http://www.fincen.gov/f4790newfillin.pdf>. Further, if applicable, the Company will file with FinCEN an FBAR for any financial accounts that it holds, or for which it has signature or other authority over, in a foreign country of more than $10,000. Company will use the FBAR Form at <http://www.fincen.gov/forms/files/f9022-1_fbar.pdf>.
* The annual FinCEN Information Sharing certification is added to the Company Internal Exam to verify completion.

## 7.10 Suspicious Activity Reports (SARs)

The requirement to file Suspicious Activity Reports on Form SAR applies to transactions occurring after December 30, 2002. Specifically, the rule requires broker/dealers to report to any transaction if the broker/dealer knows suspects or has reason to suspect that it falls within one of four classes:

(1) The transaction involves funds derived from illegal activity or is intended or conducted to hide or disguise funds or assets derived from illegal activity;

(2) The transaction is designed, whether through structuring or other means, to evade the requirements of the BSA;

(3) The transaction appears to serve no business or apparent lawful purpose or is not the sort of transaction in which the particular customer would be expected to engage and for which the broker/dealer knows of no reasonable explanation after examining the available facts; or

(4) The transaction involves the use of the broker/dealer to facilitate criminal activity.

Filing SARs not only applies to individual transactions but extends to patterns of transactions. FinCEN rules clarify that “if a broker/dealer determines that a series of transactions that would not independently trigger the suspicion of the broker/dealer, but that taken together, form a suspicious pattern of activity, the broker/dealer must file a suspicious transaction report.” The indicators noted above are red flags and helpful in determining whether a transaction “appears to serve no business or apparent lawful purpose or is not the sort of transactions in which the particular customer would be expected to engage and for which the broker/dealer knows of no reasonable explanation after examining the available facts.”

The Securities and Exchange Commission (SEC) unveiled a Suspicious Activity Report (SAR) Alert Message Line in August 2008 that securities firms can use to voluntarily report the filing of a SAR that may require immediate attention by the SEC. The SEC's SAR Alert Message Line is **(202) 551-SARS (7277)**.

The Company will hold SARs and any supporting documentation confidential. It will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a SAR. Company will deny any subpoena requests for SARs or SAR information and immediately tell FinCEN of any such subpoena it receives. Company will segregate SAR filings and copies of supporting documentation from other firm books and records to avoid disclosing SAR filings. However, while SARs are to be treated as confidential, Company will provide SARS and supporting documents to any self-regulatory organization (SRO) that examines Company for compliance with the SAR Rule, upon request of the SEC. Morris Monroe will handle all subpoenas or other requests for SARs.Company will share information with HTS, our clearing firm, about suspicious transactions for determining when a SAR should be filed. Company may share with HTS a copy of the filed SAR – unless it would be inappropriate to do so under the circumstances, such as where we file a SAR concerning HTS or its employees.

### 7.10.1 Reporting Suspicious Activity

Morris Monroe will have responsibility for reporting any suspicious activity and is the named recipient for any request of information from law enforcement agencies or securities regulators. Any suspicious activity will be reported to the home office to Morris Monroe or Laura Hendricks. Further investigation by one or both of these individuals, and the advice of outside counsel if determined necessary, will be conducted to determine if the information should be reported to law enforcement agencies and/or filing a Suspicious Activity Report (SAR).

Any requests for information from FinCEN (Financial Crimes Enforcement Network) must be submitted as soon as possible, but not later than seven days, either by email at [*patriot@fincen.treas.gov*](mailto:patriot@fincen.treas.gov)*,* by calling the **Financial Institutions Hotline** (1-866-556-3974) or by any other means as requested by FinCEN. If required to complete a Subject Information Form as requested by FinCEN, it must be sent to FinCEN by electronic mail at [sys314a@fincen.treas.gov](mailto:sys314a@fincen.treas.gov), or if the Company does not have e-mail, by facsimile transmission at 703-905-3660.

In particular, use the Hotline to report Ransomware. Company can log into the SISS and navigate to the *Special Collections* tab. This tab has a dropdown menu where the User can select “Hotline Tip” as the type of Special Collection. There is a field where the User can provide a reference number. If filing is in relation to a recent or ongoing ransomware attack, use **FIN-2021-RW** (if in 2021) as the reference number. Lastly, there is a “Choose Files” button to locate and attach the documents. The User can click the “Submit” button to transmit the information to FinCEN.

**Informing Federal Law Enforcement in Emergency Situations**: Morris Monroe will contact Federal law enforcement immediately by telephone if, in the course of performing due diligence or opening an account, it is discovered that:

\* a customer is on the OFAC list;

\* a customer’s legal or beneficial account owner is listed on the OFAC list;

\* a customer attempts to use bribery, coercion, undue influence, or other inappropriate means to induce the Company to open an account or proceed with a suspicious activity or transaction; and

\* any other situation that the Company reasonably determines requires immediate government action.

Any other requests for information from enforcement agencies must be provided to the appropriate agency and made available when requested. Such information must be provided as soon as possible, but not later than seven days, after receiving a written enforcement request.

Any customer or potential customer on the OFAC list or a customer’s legal or beneficial account owner is listed on the OFAC list must be reported to the **OFAC Compliance hotline** at

(202) 622-2490 or 800-540-6322.

**BSA E-Filing System**:[**http://bsaefiling.fincen.treas.gov/main.html**](http://bsaefiling.fincen.treas.gov/main.html). **FinCEN website for Adobe forms**:[**http://www.fincen.gov/forms/bsa\_forms/**](http://www.fincen.gov/forms/bsa_forms/)

**FinCEN Terror Hotline: 866-556-3974**

**FinCEN Regulatory Helpline Number: 800-949-2732**

**US Attorney’s Office: (713) 567-9000**

**FBI Office: (713) 693-5000**

<http://www.fbi.gov/contact/fo/fo.htm>; submit a tip to the FBI electronically at <https://tips.fbi.gov/>

**SEC Office: (817) 978-3821/ SEC SAR Alert Message Line (202) 551-SARS 7277**

**Blocked Properties Reporting Form**:

<http://www.treas.gov/offices/enforcement/ofac/legal/forms/td902250.pdf>

**Voluntary Form for Reporting Blocked Transactions**:

[http://www.treas.gov/offices/enforcement/ofac/legal/forms/e blockreport1.pdf](http://www.treas.gov/offices/enforcement/ofac/legal/forms/e%20blockreport1.pdf)

**Voluntary Form for Reporting Rejected Transactions**:

[http://www.treas.gov/offices/enforcement/ofac/legal/forms/e recjectreport1.pdf](http://www.treas.gov/offices/enforcement/ofac/legal/forms/e%20recjectreport1.pdf)

**Sanctioned Countries List**:

<http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>

**To file a Suspicious Activity Report (SAR):**

The form SAR SF will be used and must be filed within 30 days of the Company’s becoming aware of the suspicious activity and concluding, after conducting further due diligence that the suspicious activity cannot be explained and should be reported. If there is no suspect identified, an additional 30 days may be allowed to attempt to identify the suspect and file the SAR SF. The form can be accessed at the following link:

<http://www.fincen.gov/fin101_formandinstructions.pdf>

***Any detection of securities law violations should be reported to the SEC and the FINRA.***

## 7.11 Internal Audit and Testing of AML Procedures

At a minimum, the Company will ensure an annual audit and testing of its AML procedures in an independent audit and a record of such audit will be maintained with the Company’s records. After testing is completed, the staff will report its findings to Morris Monroe, senior management. Company will address each of the resulting recommendations and adopt any new applicable policies or procedures

### 7.11.1 ****Independent Testing Requirements**** *(eff 01/01/10)*

Independent testing must be conducted by an independent person with a working knowledge of applicable requirements under the Bank Secrecy Act and its implementing regulations. Independent testing may not be conducted by a person who performs the functions being tested, the AML Compliance Officer, or a person who reports to either of these persons. Testing will be conducted at least annually; however, Company shall undertake more frequent testing than required if circumstances warrant. A copy of said reviews will be maintained as part of Company records for a period of three years.

## 7.12 Monitoring Employee Accounts

Company will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the AML Compliance Officer. Laura Hendricks will also review the AML Compliance Officer’s accounts.

## 7.13 Confidential Reporting of AML Non-Compliance

Employees will report any violations of the Company's AML compliance program to the AML Compliance Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to Laura Hendricks. Such reports will be confidential, and the employee will suffer no retaliation for making them.

## 7.14 AML Recordkeeping

Company will hold SARs and any supporting documentation confidential. Company will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a SAR. Company will deny any subpoena requests for SARs or SAR information and immediately tell FinCEN of any such subpoena it receives. Company will segregate SAR filings and copies of supporting documentation from other firm books and records to avoid disclosing SAR filings. The AML Compliance Officer will handle all subpoenas or other requests for SARs. All SAR records and any other confidential records will be maintained in a separate file in Morris Monroe’s office in a secured file cabinet. Company will share information with its clearing broker about suspicious transactions for determining when a SAR should be filed. Company may share with the clearing broker a copy of the filed SAR – unless it would be inappropriate to do so under the circumstances, such as where it files a SAR concerning the clearing broker or its employees.

As part of the AML program, Company will create and maintain any filed SARs, CTRs, CMIRs, FBARs, and relevant documentation on customer identity and verification and funds transfers and transmittals as well as any records related to customers listed on the OFAC list. Company will maintain SARs and their accompanying documentation for at least five years. Other documents will be kept according to existing BSA and other record keeping requirements, including certain SEC rules that require six-year retention.

In addition, all CIP forms or information will be maintained either in hard copy in the customer file or electronically (scanned documents or identifying information recorded in Company maintained software).

The AML Compliance Officer and his or her designee will be responsible to ensure that AML records are maintained properly, and any SARs are filed as required.

## 7.15 Training

Company will develop ongoing employee training under the leadership of the AML Compliance Officer and senior management. Training will occur at least on an annual basis. It will be based on Company’s size, its customer base, and its resources. In addition, all new hires receive training in all Company Procedures and its WSP, including AMLCP as evidenced by their certification of receipt and acknowledgment of the WSP.

At a minimum, the Company will ensure that employees are trained in the following topics:

* What is Money Laundering;
* Overview of the US Patriot Act and the Office of Foreign Assets and Control;
* Customer Identification requirements;
* How to identify “red flags” and possible signs of money laundering that could arise in the course of their duties;
* What to do once the risk is identified;
* What their roles are in the Company’s compliance efforts;
* How to perform their roles;
* Information about reporting suspicious activity;
* Reporting requirements for cash and currency and Company policies relating to same;
* The Company’s record retention policy; and
* Disciplinary consequences, including criminal and civil penalties for non-compliance with the Money Laundering Abatement Act.

Company will develop training from within or through an outside vendor. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos. Company will maintain records to show the persons trained, the dates, and the subject training matter.

At a minimum, the Company will conduct annual training with its Associated Persons, principals, and employees. An annual review, or sooner if necessary, of the Company’s AML training will be conducted to ensure that the Company is informing employees about any new developments with the rules and regulations. A record of such training and those in attendance will be maintained as evidence of completion and be maintained as part of the Company’s permanent records for three years.

Company will review its operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Written procedures will be updated to reflect any such changes.

## 7.16 Review of Patriot Act

The AML Compliance Officer will review new rule changes as required by the Patriot Act by reviewing rule changes regarding Anti-money Laundering, as published in the FINRA Rules and Regulations, and Notices to Members. Such review will be evidenced by updating and signing the Anti-money Laundering Procedures.

## 7.17 Approval

THESE PROCEDURES HAVE BEEN REVIEWED AND APPROVED BY MORRIS MONROE, PRESIDENT, GENERAL PRINCIPAL, AND AML COMPLIANCE OFFICER.



\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_12/21/22\_\_

### Signature Date

# 8. TRADING POLICIES AND PROCEDURES

## 8.1 Introduction

These policies and procedures are adopted in an effort to assure:

(1) Fair and equitable treatment of accounts both in priority of execution of orders and in the allocation of securities and the price obtained in the execution of block orders or trades;

(2) Timeliness and efficiency in the execution of orders (Company must make every effort to execute a marketable customer order that it receives fully and promptly. Refer to FINRA Rule 5320.07 for further details on Company's obligations); and

(3) Accuracy of the records maintained by the Company with respect to trade execution and maintenance of client account positions.

Suitability is only one element of acting in a customer's best interest. Recommendations to retail customers who are natural persons are subject to Regulation Best Interest (REG BI) which is broader than the suitability requirement. Reg BI includes recommendations for orders; types of accounts; and investment strategies, including recommendations to prospects. It is important to be familiar with those requirements which are included in Chapter 5 *REGULATION BEST INTEREST (REG BI)*.

## 8.2. Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Morris Monroe or Designated Supervisor |
| **Statutes** | * FINRA Rule 2114 – Recommendations in Equity Securities * FINRA Rule 2124 – Net Transactions * FINRA Rule 2265 – Extended Hours Trading * FINRA Rule 4560 – Short Interest Reporting * FINRA Rule 5230 – Pmts for Publications that influence the Mkt Price of Securities * FINRA Rule 5260 – Trading Halt Prohibitions * FINRA Rule 5280 and 5320 – Trading Ahead of Customers * FINRA Rule 5240-Anti-Intimidation/Coordination * FINRA Rule 6800 - CAT * SEC Rule 144 – Restricted Stock * SEC Rule 605, 606 – Order Routing, Best Execution * SEC Regulation Best Interest |
| **Frequency** | * As required , * Annual review of procedures |
| **Actions** | * Order Tickets or other reports * Personal trades * Evaluate best execution and order routing by HTS * Review trade reporting at a minimum weekly * Where necessary, take corrective action which may include cancelling, rebilling transactions to correct charges. * Review transactions to identify solicited transactions in OTC and low-priced or microcap equity securities (or groups of accounts) for compliance with FINRA rules and applicable laws including red flag indicators of potential fraud (in particular as noted in FINRA Notice 21-03) * Review applicable FINRA Reports * Review third party reporting periodically * Ensure all registrations and requirements set up for CAT reporting and keep information updated * Regular review of CAT portal for file status, potential errors or repairs, comparative reviews against Company order and trade records, clock sync reviews and annual certification by Mar 15. |
| **Records** | * Transaction records/ SRO Reports/ Reviews of Third-Party reporting * Personal trades and outside securities account statements * Best execution and order routing reviews * Internal reviews, FINRA Reports * Any corrective actions taken. * Review logs, certifications, reports |

## 8.3 Authorization

Trades may only be executed by the trading desk or designated Associated Persons granted trading authority.

|  |  |
| --- | --- |
| **Trading Authorization** | **Office** |
| Monroe, Morris | Home Office |
| Sedita, Gloria | Home Office |
| Vaughan, David | Home Office |
| Hendricks, Laura | Home Office |

## 8.4 General Procedures

RRs must have a reasonable basis for believing that a recommended transaction or investment strategy involving a security or securities is suitable for the customer. Recommendations should be based on information obtained through reasonable diligence to ascertain the customer's investment profile, which is recorded in the account records, generally at the time the account is opened and updated when necessary. The customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose in connection with the recommendation.

All orders may be executed only based on written (or computer generated) trade tickets. All orders must bear the following information, whether executed or unexecuted:

* + Whether the order is long or short (except for debt securities);
  + The terms and conditions of the order or any modification or cancellation, and any special features of the security – name of security, Buy/Sell, Long/Short, Quantity, Limit or Stop Limit, Fill/Kill, Day or GTC;
  + If a short sale, an indication the security can be borrowed;
  + If an option, Put/Call, and Open/Close;
  + The date and time of trade entry or cancellation;
  + The price at which executed;
  + The time of execution;
  + The name of the person responsible for the account and the name of the person placing the order;
  + The account(s) for which entered and the intended allocation of the order among those accounts;
  + An indication of whether the order is Solicited or Unsolicited, and any temporary Discretion, if applicable.
  + With respect to each order that is received or executed at its trading department, Company shall record an identification of:

(A) Each registered person who receives the order directly from a customer;

(B) Each registered person who executes the order. A and B could be the same person as recorded in the HTS system; and

(C) The department that originated the order if the order is originated by the Company and transmitted manually to another department.

All customer orders are to be entered through the Company's main office or through approved-for -trading OSJ branch offices and shall be reviewed and accepted on behalf of the Company by Morris Monroe or his designee, or designated principal if applicable. Only licensed back office personnel or a Registered Representative can process an order from a client.

No order will be accepted from any person other than the account owner, unless an acceptable power of attorney is on file. All customer orders must contain the customer's name. Any change in the name or investment objective of an account shall be approved in writing by a Principal (this can be accomplished by completing a new, New Account form and providing a copy to the customer). Starting January 9, 2006, a letter must be sent to the customer for verification if a copy of the new, New Account form is not provided. All customer orders for a new account of the Company must be accompanied by a completed New Account Form, a customer order ticket/subscription agreement and payment from the customer for such transaction.

### 8.4.1 Order Process:

1. Either complete a written ticket or input same information into HTS back-office system, for blotter and recordkeeping purposes (which must contain the same information as number 2 below.
2. If a manual ticket is written, review ticket for completeness (including but not limited to type of transactions {long/short/buy/sell, etc.}, time and date stamps if not input directly into HTS, solicited/unsolicited, marked for principal/agency), customer account name or designation. Have principal or compliance department designee (Morris Monroe, Laura Hendricks, back-office personnel in home office) review ticket. Time stamp paper ticket upon completion of order.
3. Maintain ticket until ticket report is generated (usually printed every two weeks or monthly). Have principal approve ticket report.
4. All orders input into HTS system unless have to be called in or emailed to HTS.
5. Orders that are reportable to RTRS must be processed by the home office trading desk or Morris Monroe. TRACE and RTRS orders must be entered into HTS Trade Entry module unless confirmed with HTS trading desk that they will process trade when they are the dealer (or emailed to P&S at HTS if experiencing Company system technical problems) and reported in **Eastern Standard Time.** (All other trades are automatically captured in EST in HTS when entered into HTS Order Entry module). Any trades not executed through the home office or OSJ will be reviewed on an individual basis and to determine if any internal disciplinary actions are warranted.
6. Open orders recapped with registered representative and trading prior to expiration.

Pursuant to Rule 3110(d), before a customer order is executed, the account name or designation must be placed upon the memorandum or contained in the HTS system for each transaction. In addition, only a principal may approve any changes in account names or designations. The principal also must document the essential facts relied upon in approving the changes and maintain the record in a central location. The Company shall preserve any account designation change documentation for a period of not less than three years, with the documentation preserved for the first two years in an easily accessible place, as the term “easily accessible place” is used in SEC Rule 17a-4.

### 8.4.2 Order Review

1. Orders are verified in HTS customer accounts by Trading Dept or back office.
2. Next day, each trade is compared with confirmation report from HTS for execution information (any discrepancy must be worked out with the clearing firm right away) and notify principal of any short sales on non-margin stocks.
3. DK's must be handled immediately (call contra side and speak to original contact noting important points in conversation on trade ticket).
4. Trade Blotters are reviewed by Compliance or designated principals for orders and rule violations.

### 8.4.3 Extensions

1. The day prior to extension notify registered representative of the extension. Have the registered representative inform you of status of payment by customer.

2. Registered representatives with excessive extensions should be reported immediately to principal for review.

3. Emailed Extension requests are kept in Cashiering file.

### 8.4.4 Margin Accounts

1. A HTS Margin Agreement must be signed by the customer and a copy of the form retained in the customer file;
2. Required margin is set by industry rules and HTS. Margin calls are provided by HTS directly to the customer. Margin calls may be met by either cash or securities.
3. Margin excess may be withdrawn or transferred to the SMA account which will result in a debit to the margin account and a credit to the SMA account. This procedure is affected by HTS.
4. Margin calls are emailed to operations contacts. Any requests would be forwarded to the applicable Associated Person and customer for instructions to handle.

### 8.4.5 Settlement (T+2)

Trades must settle within 2 days of the “trade date.”

1. Check HTS Requirement Reports daily for securities due and monies due.
2. Contact the customer by phone if necessary to inform them of the pending requirement.
3. Make sure securities/cash are in account on settlement day.
4. Obtain any extensions if applicable.
5. Trading stock prior to payment/settlement: Client cannot sell stock until it settles but must have money in by purchase side settlement otherwise account will be restricted for 90 days.
6. Any extension of credit or Reg T must be approved by Morris Monroe or his Compliance or Trading Department designee with a record maintained in the Operations file.

### 8.4.6 Sellouts

If applicable:

1. Day prior to sellout, notify registered representative. Have registered representative inform you of status of payment by client.
2. Request reference number for overnight or incoming wire.
3. If sellout is required, notify registered representative, write up sellout ticket, and notify trading and Morris Monroe.
4. When trading confirms execution of sellout, notify registered representative.
5. If the customer does not pay for the trade, sell out the customer's position.
6. Remove the transactions from the customer's account through cancel/rebill.
7. Review the circumstances of the sellout.
8. If there is a loss, charge the RR (unless an exception is warranted).
9. Identify patterns of customer reneges which may reflect potential unauthorized transactions and a customer whose account should be closed.
10. Take corrective action, if necessary, which may include discussing sellouts with the RR; reviewing new account documentation; contacting the customer; closing the account; contacting Compliance regarding possible disciplinary action against the RR.
11. Excessive registered representative sellouts must be reported to principal.

### 8.4.7 Commission/Ticket Blotter

1. Retail trades for HTS are maintained in HTS and retrieved for blotter by exporting information to an excel spreadsheet. Trades are reviewed to compare with confirm reports by Trading Department, prepared monthly for blotter and ticket reports. In addition, HTS trades are downloaded into WinOps and part of all trading reports.

2. Close out commission period at end of month (settlement day is last Friday of the month).

3. Ticket Blotter reviewed by principal each month.

### 8.4.8 Compliance/AML/Exception Reports

Back Office and/or Compliance personnel are responsible for reviewing reports.

* + Any problems/issues bring to the attention of the Principal
  + Any problems/issues will be documented in the operations file with any supporting documentation and principal review.
  + Clearing firm annual notice is provided by July 31 of each year. The report will be reviewed by Compliance and contact the clearing firm regarding any changes to the list of reports currently received. Company maintains certain reports provided as part of its records and review.

### 8.4.9 Trade Errors

Operations/Back Office personnel shall maintain a record of any trade errors for review and approval. Compliance shall review the HTS Error Account (#800030979) for any activity along with maintaining a log of Trade Errors noting the details of the transaction. Errors will also be part of the annual review to detect any unreported errors.

### 8.4.10 Cancels/Rebills

Order memorandum (HTS Order Ticket Report) will be marked with cancellation information/reason (i.e. wrong account number, wrong comm., etc.) and initialed by a principal. In addition Compliance will review the FINRA Cancel and As of Report within the Gateway/Report Center to detect any patterns and if any action needs to be taken. Compliance will maintain a record within the FINRA report if any such action(s) occur.

### 8.4.11 Mark-up Policy

Company is obligated to provide customers with "fair prices" including charges (markup/markdown or commission). Supervisors are responsible for determining that mark-ups and mark-downs are reasonable and consistent with Company’s policy. See Section 12.3 for FINRA Rule 2121 and further information.

### 8.4.12 Providing Stock Quotations

Under the Vendor Display Rule of Regulation NMS, Company has an obligation to use market feeds that represent a broad spectrum of quotations available in the marketplace when providing quotations to customers. Only those systems approved by the designated supervisor will be made available for internal use by registered representatives for providing quotations to customers. Currently, Company uses eSignal (and Schwab which also displays live data) as its approved (by Morris Monroe) quotation vendor. Any other quotes (from HTS or other providers that are not live) may be used with a disclaimer that quotes are delayed.

### 8.4.13 Low-Priced and Microcap Securities

These securities are subject to scrutiny because of potential risks, including the following. The SEC has identified "microcap securities" subject to their scrutiny as stocks of companies with a market capitalization of under $250 million. Following are concerns and actions regarding low-priced securities.

* Identify customer's occupation or business to request additional information such as whether the customer is employed by a company that issues low-priced publicly-traded securities that will be deposited in the customer's account;
* Heightened supervision of any Company employees who maintain direct or indirect outside business activities associated with microcap and OTC companies;
* Heightened supervision of traders involved in trading microcap and low-priced OTC securities;
* Monitor customer accounts liquidating microcap and low-priced OTC securities to ensure, among other things, that Company is not facilitating, enabling or participating in an unregistered distribution in violation of Section 5 of the Securities Act, among other potential violations including market manipulation (pump and dump schemes);
* Where there are significant purchases (>5,000 shares), conduct reasonable investigation into each microcap company which may include that company's regulatory history, the company's financial and reporting status, the disciplinary, criminal, and civil litigation backgrounds of the company's officers, directors and principal shareholders, along with the trading history of the company's securities covering issues related to spikes in price and/or spikes in volume, and any associated promotional programs, *etc.*;
* Monitor for RR solicitations of customers to trade microcap and low-priced OTC securities to ensure that any recommendations are balanced, and the securities are suitable for the customer.

## 8.5 Priority of Order Fill

Orders generally will be processed and executed on a first‑in, first‑out basis, in the order received by the trading desk, with the following exceptions:

(1) A block execution is anticipated. The Company does not execute many or any block trades currently. However, in the event a block trade should be applicable, execution of orders for a particular security for any client who prohibits the use of block execution of trades may, and sometimes will, be delayed until the execution of any block trade for the security.

## 8.6 Block Trades

Company does not currently execute many or any block trades. However, if/when a trade is placed for more than one client; the Company may, but need not, aggregate orders or block trades when the Company believes this will result in more favorable execution. All of Company’s clients may be included in block trades subject to the criteria listed below:

(1) Accounts that have a standing instruction prohibiting the use of block trades may not participate in the block.

(2) Accounts participating in the block are selected on the basis of cash availability, increase or decrease in sector/security type targets, quality guidelines, duration adjustments, overall positions in the security being traded and the availability of a good substitution security.

(3) Accounts of the Company’s principals, officers, directors or employees may participate in block trades including mutual funds.

## 8.7 Allocations

Each trade ticket should state the accounts that will participate in any block trade and the intended allocation of the order among those accounts. However, it is understood that certain circumstances will make pre‑execution allocation impractical, including but not limited to the following situations:

(1) In the block market and the market for thinly traded securities, an opportunity may be lost to buy or sell a security if the commitment could not be made without allocating the securities among the various accounts; and/or

(2) The liquidity position of an account and other circumstances affecting the allocation decision could change because of unexpected cash flows, fails to deliver, accounting errors, restrictions or because the security is otherwise unsuitable for the account.

Hot Issues: Issues that immediately trade at a premium to the IPO price or declared a "Hot Issue" by the underwriter must be allocated only to non‑restricted accounts as defined by FINRA.

When an allocation is specified on a trade ticket:

(1) If a block order is filled in its entirety, the order must be allocated in accordance with the intended allocation specified on the trade ticket.

(2) If a block order is partially filled, the order will be allocated among the accounts specified on the trade ticket and on a pro rata basis in proportion to the intended allocation specified on the trade ticket.

In all but extremely rare circumstances, trades that are not allocated pre‑execution will be allocated no later than the close of business on the trade date. All clients must be fairly and equitably treated by any post‑execution allocation of a trade.

Where appropriate, the Company will allocate fixed income block trades at the average price of the aggregated order.

Block trades in equity securities which are worked over the course of a day will be allocated at an average execution price for that day. Average price account amounts may not be carried overnight without allocation to client accounts.

## 8.8 Reallocations

Notwithstanding the foregoing, orders for which a pre‑execution allocation was made on a trade ticket may be reallocated post‑execution on a different basis as follows:

(1) *Round Lots*: A block order may, but need not, be reallocated among the accounts specified on the trade ticket in order to round an allocation to a whole lot.

(2) *De Minimis Allocations*: When a block order is partially filled, it may be reallocated among the accounts specified on the trade ticket because, in the case of equity securities, less than an appropriate number of shares or, in the case of bonds, less than an appropriate dollar amount of the bond has been obtained for a particular account.

(3) *Unforeseen Circumstances*. A block order may be reallocated among either accounts specified on the trade ticket or other accounts due to unforeseen circumstances, such as those listed above.

All accounts must be fairly and equitably treated by any post‑execution reallocation of a trade.

## 8.9 Sale of 144 Restricted Stock

The following procedures must be adhered to for the sale of control or restricted securities:

*Definitions:*

Control Securities

Control securities are securities owned by affiliates of the issuer. Under Rule 144, an affiliate may sell control securities of the issuer without registration under the 1933 Act if all of the following requirements are met:

1. There is adequate current public information available about the company that issued the securities sold.

2. The quantity of securities that may be sold within any three-month period under Rule 144 is limited by a volume formula.

3. The securities must be sold in ordinary broker's transactions, defined as no solicitations of buy orders by either the selling customer or the selling broker. Under certain circumstances, a Rule 144 seller may sell his securities directly to a "market maker. The term “market maker” includes OTC traders or a securities dealer positioning blocks of listed stocks.

4. Filing of the Notice of Proposed Sale of Securities (Form 144), when required, must be accomplished on or before the day of sale (filing should be done by selling firm).

Restricted Securities

If restricted securities are to be sold, Rule 144 may be employed to affect the sale provided that:

1. Each of the above four requirements is met, **and,**

2. The securities must have been fully paid for and beneficially owned for at least one year.

*General Guidelines:*

1. Make sure the above conditions apply;
2. Contact HTS Stock Transfer & Receipt Department to notify them of customer’s intent to sell their 144 stock;
3. In most cases, customer will have to obtain a Legal Opinion from the Issuer’s Counsel;
4. Have customer sign Rule 144 Seller Letter (can be obtained from HTS);
5. Have customer send his certificate(s) and items #3 and #4 above to:

Hilltop Securities, Inc.

Stock Transfer and Receipt

Attn: 144 Stock Sale

1201 Elm Street #3500

Dallas TX 75270

Red Flags

Broker-dealers are prohibited from selling unregistered securities unless the sale falls within an available exemption such as Rule 144 or Section 4(a)(4) discussed in the prior paragraphs. Avoiding such sales is based on knowing the customer and the securities to be sold. The RR should be aware of "red flags" that may indicate a customer is selling unregistered securities, including the following examples:

* A customer opens a new account and delivers physical certificates representing a large block of thinly-traded or low-priced securities he wants to send to HTS.
* A customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale.
* A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security.
* Share certificates reference a company or customer name that has been changed or that does not match the name on the account.
* The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired.
* There is a sudden spike in investor demand for, coupled with a rising price in, a thinly traded or low-priced security.
* The company was a shell company when it issued the shares.
* A customer with limited or no other assets under management at Company receives an electronic transfer or journal transactions of large amounts of low-priced, unlisted securities.
* The issuer has been through several recent name changes, business combinations or recapitalizations, or the company's officers are also officers of numerous similar companies.
* The issuer's SEC filings are not current, are incomplete, or nonexistent.
* Omnibus accounts are opened for purported stock loan companies which may hold restricted securities of corporate insiders who have pledged the securities as collateral for, and then defaulted on, purported loans, after which the securities are sold on an unregistered basis.
* Accounts are held in the name of a corporate entity (or LLC), either for the company's own use or as a third-party custodian on behalf of other beneficial shareholders or customers, which disguise the unregistered sales of securities owned by corporate insiders of the company and allow for those insiders to withdraw proceeds individually.
* Accounts are held in the names of foreign financial institutions, such as offshore banks and/or broker-dealers that sold shares of the stock on an unregistered basis on behalf of customers, who may have been stock promoters.
* Accounts may use a master/sub-structure, which allows for trading anonymity with respect to the sub-accounts' activity.

When confronted with a customer wanting to sell a block of stock where there may be a question about the registered status of the stock, the following questions should be asked:

* How long has the customer held the securities?
* How did the customer acquire the securities?
* Does the customer intend to sell additional shares of the same class of securities through other means?
* Has the customer solicited or made any arrangement for the solicitation of buy orders in connection with the proposed resale of unregistered securities?
* Has the customer made any payment to any other person in connection with the proposed resale of securities?
* How many shares or other units of the class are outstanding, and what is the relevant trading volume?

## 8.10 Direct Application & Check Transactions

No Associated Person may forward any applications and checks directly to vendors without first obtaining supervisory review and approval and back office processing. All originals must be submitted to the OSJ or home office trading department for proper handling and supervisory review and approval. Violations may result in an offer of cancellation to the customer with full recourse, a fine, and or termination for repeated offenses.

## 8.11 Improperly Licensed Trades

For any trade executed for an Associated Person who is not properly licensed either in a jurisdiction or by proper securities license, a full rescission to the customer must be offered and/ or the trade cancelled and/or rebilled if applicable to a properly licensed Associated Person or House account. No commission will be paid to the improperly licensed Associated Persons; however, if the Associated Person has already received the commission prior to discovery, a chargeback will be assessed.

## 8.12 Personal Trades

Principals and designated employees of the Company may execute orders on behalf of the Company, their own accounts or other accounts, however, it is a regulation of the Company that they must avoid security transactions and activities for these accounts which might conflict with or be detrimental to the interests of clients, or which are designed to profit by market effect. These rules should not be construed in any way that would place the Company’s clients in a disadvantaged trading position. Personal trading is reviewed quarterly at a minimum.

## 8.13 FINRA Rule 5280-Trading Ahead of Research Reports

Company will not establish, increase, decrease or liquidate any inventory position, if ever applicable, in a security or a derivative of such security based on non-public advance knowledge of the content or timing of a research report in that security. In addition, Company does not maintain a research department and therefore there is no relative information to flow between Company personnel.

## 8.14 Hot Issues

Issues that immediately trade at a premium to the IPO price or declared a "Hot Issue" by the underwriter must be allocated only to non‑restricted accounts as defined by FINRA.

## 8.15 Commingling

Company employees are not permitted to place customers' checks or money intended for transactions involving securities into their own bank account or insurance business account, regardless of the amount of money or the length of time involved. Mishandling customer funds could result in prosecution by state or federal criminal agencies.

## 8.16 Purchase and Sale of IPOs of Equity Securities

The distribution of equity initial public offering (IPO) shares must be a *bona fide* public offering and fair distribution to the public. This means sales will not be made to benefit insiders in the securities industry or to other closely-related parties that might unfairly benefit at the expense of public customers. They may not be placed in employee or Associated Persons accounts under any circumstances, and only under strict guidelines may they be placed in the accounts of financial services industry personnel or their immediate families.

### 8.16.1 Exclusions

The Rule applies to IPOs of equity securities **excluding** new issues in the following types of equity securities:

* Restricted securities
* Exempt securities
* Commodity pools
* Rights offerings, exchange offers, or offerings involving a merger or acquisition
* Investment grade asset-backed securities
* Convertible securities
* Preferred securities
* Investment company securities
* Securities that have a pre-existing market outside the United States (ADRs or share form)
* Business development companies
* Direct participation programs (DPPs)
* Real estate investment trusts (REITs)
* Foreign investment companies (with certain limitations)

The Rule should be consulted for specific details. Questions regarding restrictions should be directed to the syndicate supervisor or to Compliance.

### 8.16.2 Restricted Persons

Equity IPOs **may not be purchased** by "restricted persons" as defined in FINRA Rule 2790 including accounts where the restricted person has a beneficial interest. Restricted persons include:

* **Broker-dealers**
* **Broker-dealer personnel** (includes officer, director, general partner, associated person, or employee)
* **Immediate family members** of the above ("immediate family" is defined under "Definitions" at the end of this section)
* **Employees and immediate family members** of employees of an **affiliate of the BD** selling the IPO
* **Finders and fiduciaries** to the managing underwriter for the particular IPO or immediate family member of a finder or fiduciary
* **Portfolio managers** (any person who has authority to buy or sell securities for a bank, savings and loan institution, insurance company, investment company, investment advisor, or collective investment account) and their immediate family members
* **Persons who have ownership in a broker-dealer including:**
  + **Direct owners** (any person listed, or required to be listed, on Schedule A of Form BD) unless ownership is less than 10%
  + **Indirect owners** (any person listed or required to be listed on Schedule B of Form BD) unless ownership is less than 10%
  + **Persons listed** or required to be listed **on Schedule C** of Form BD
  + **Persons that directly or indirectly own 10% or more of a public reporting company** listed or required to be listed in Schedule A or **persons that directly or indirectly own 25% or more of a public reporting company** listed in Schedule B of Form BD (other than reporting companies listed on an Exchange, the NASDAQ National Market, or that is a limited business broker-dealer)
  + **Immediate family members** of the above, with some exclusions in the Rule

**Excluded** from the definition of "restricted person" is an **employee** or immediate family member of an employee of a **"limited business broker-dealer"** which is defined as any broker-dealer whose business is limited solely to the purchase and sale of investment company/variable contract securities and direct participation program securities.

### 8.16.3 General Prohibitions

The following summarizes the general prohibitions that apply to the sale of equity IPOs.

1. Restricted persons are not allowed to purchase IPOs, unless there is an available exemption.
2. A broker-dealer or associated person (AP) may not purchase an equity IPO in an account where the BD or AP has a beneficial interest.
3. A broker-dealer may not continue to hold new issues acquired as underwriter or selling group member except when the issue is under-subscribed (described in a later section).

An IPO may not be sold to an account unless, during the prior 12 months, Company has received certification that the account is eligible to purchase new issues. This includes certification from conduit accounts (discussed below). Company or an RR cannot rely on a certification that it has reason to believe is not accurate.

### 8.16.4 Indirect Beneficial Owners

Where it is difficult to identify indirect beneficial owners such as participants in unaffiliated private funds (such as a fund of funds), the Company may rely on a written representation obtained within 12 months by a person authorized to represent an account that does not look through to the beneficial owners of any unaffiliated private fund invested in the account, except for beneficial owners that are control persons of the investment adviser to the private fund. An unaffiliated private fund that qualifies under this exception:

* is managed by an investment adviser;
* has assets greater than $50 million;
* owns less than 25% of the account and is not a fund in which a single investor has a beneficial interest of 25% or more; and
* was not formed for the specific purpose of investing in the account.

An "unaffiliated private fund" is a private fund defined in Section 202(a)(29) of the Investment Advisers Act, whose investment adviser does not have a control person in common with the investment adviser to the account.

## 8.17 Conflicts of Interest

Avoid even the appearance of conflict, let alone any actual conflict of interest, in transactions with customers. For instance, if an Associated Person own shares of a thinly traded stock in a personal account, it may be questionable the true motivation in recommending large purchases of those shares to customers when such a recommendation is likely to drive up the price of that stock.

## 8.18 Parking Securities and Maintaining Fictitious Accounts

Holding or hiding securities in someone else's or a fictitious account is misleading and strictly prohibited.

## 8.19 Review of Transactions

Company reviews securities transactions at least monthly to identify trades that may violate provisions of the Exchange Act and its rules, rules of exchanges, or FINRA rules prohibiting insider trading and manipulative and deceptive devices. The accounts subject to these reviews include:

* Accounts of the Company;
* Accounts introduced by Company in which an Associated Person has a beneficial interest or the authority to make investment decisions;
* Outside accounts of Associated Person; and
* Other covered accounts including any account that is held by the spouse, child (who resides in the same household or is financially dependent of the Associated Person), any other relative or individual over whose account the Associated Person has control or gives financial support.

In addition, a review of any available FINRA reports will be conducted to detect such actions as layering and spoofing and follow up exceptions to identify manipulative activity and take corrective action. For questioned trades, a prompt internal investigation will be conducted to determine whether a violation of laws or rules has occurred and the report maintained as part of Company’s records.

## 8.20 Proprietary Trading

Currently, Company is a $5,000 net capital broker/dealer and thus does not conduct any proprietary trading. However, in the event the Company is able to conduct proprietary trading in the future, these procedures will apply.

Proprietary trades in the Company's trading account with Hilltop Securities, Inc. may only be executed by Morris Monroe or his designee. Morris Monroe shall be the supervisor responsible for all proprietary trading activities, including but not limited to principal trades with customers, customer accommodations, mark up policies and trade reporting activities.

The Company's policy regarding markups/markdowns would be that all markups/markdowns must be consistent with that of Rule 2440 of the FINRA Rules. Keeping in mind that it would be the Company's intention to use prevailing inter-dealer prices, and in his absence, the Company would use contemporaneous cost and, in some cases,, these may be one and the same. The Company would not act as a market maker, nor would any individual be authorized to hold himself/herself and/or the Company out to the public as a market maker.

With respect to trading activities, all NASDAQ, listed trades and fixed income products would be executed at the prevailing market price at the time of execution. As far as accommodations with non-NMS stocks or elsewhere in the OTC market, Pink sheet trades, the Company would execute the trades and obtain the best execution for all customers by checking at least three available market makers and executing at the best price for the customer. A notation would be made on the ticket indicating the market makers contacted and their respective quotes at the time contacted.

In "over-the-counter" transactions, whether in "listed" or "unlisted" securities, to the extent the Company acts as a principal, the Company will not charge its customer more than a fair commission or service charge, taking into consideration all relevant circumstances including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service it may have rendered by reason of its experience in and knowledge of such security and the market thereof.

Entry and execution of retail orders would follow the following procedures:

Morris Monroe or his designee will enter orders promptly as received. Order tickets would be checked for completeness. Listed orders as applicable would be entered on the system and placed in an order box for later comparison. Other listed orders may be entered verbally as needed with Hilltop Securities, Inc. Agency trades for the most part will be executed with Hilltop Securities, Inc., however on occasion the Company may execute agency transactions through other dealers. Morris Monroe shall be responsible for reviewing all markups/markdowns computed on behalf of the Company.

Over the counter orders, retail NASDAQ agency or principal orders would be executed at best possible prices for all customers. The bid prices less a commission or commission equivalent markdown for a seller and the offer price plus a commission or commission equivalent markup would be the outside guidelines for execution of agency and principal customer orders. There may be occasional exceptions to this guideline as trading conditions may warrant for non-routine orders considering the size of the order in relation to the liquidity in trading volume.

Principal and agency orders for any Non-NASDAQ over the counter securities ("Pink Sheets" and foreign securities) would be subject to the stringent "Designated Securities" transaction rules and regulations. Transactions in designated securities will only be permitted by exemption under SEC Rule SEC 15g-1. If available, quotations from at least three market makers would be obtained for principal and agency customer orders. The Company would only execute non-NASDAQ over the counter transactions on a riskless principal basis.

All executed orders would be reviewed daily by Morris Monroe. The Company shall not charge any principal markups/markdowns, whether riskless or at risk, greater than 5%. Any exceptions would be required to be approved by Morris Monroe and the conditions precedent to the exception must be noted in the Company's records to document the basis of granting of such exception.

Junk corporate bonds, due to the high risk and volatility of these securities, markups/markdowns may be allowed up to 5% or slightly higher. However, any markups/markdowns higher than 5% must be approved by Morris Monroe and registered representative shall document the conditions precedent to the exception in support of granting of such exception.

For corporates with a Baa or higher rating the markups/markdowns would be as follows:

3.0% Round Lots

3.5% Odd Lots

However, any markups/markdowns higher than the foregoing guidelines for corporates with a Baa or higher rating must be approved by Morris Monroe and registered representative shall document the conditions precedent to the exception in support of granting of such exception.

Investment grade municipal securities principal and agency transactions would be executed in accordance with MSRB Rule G-30. The normal markup/markdown would not be greater than 3.0%. Municipal bond transactions would also be executed at an aggregate bond price (including any markdown or markup). However, any markups/markdowns higher than the foregoing guidelines for municipal securities must be approved by Morris Monroe and registered representative shall document the conditions precedent to the exception in support of granting of such exception.

Government securities would normally be traded with no more than a 1-point spread. CMOs would normally carry no more than a 3.5% markup/markdown. However, any markups/markdowns higher than the foregoing guidelines for CMOs must be approved by Morris Monroe or his designee, and he shall document the conditions precedent to the exception in support of granting of such exception.

***Reporting transactions in NASDAQ National Market System by a "Non- Registered Reporting Member****:****”*** In accordance with Article VII of the FINRA By-Laws, and SEC Rule 11Aa2-1, a "Non-Registered Reporting Member" means a member of the FINRA which is not a Registered Reporting Market Maker. The Company as a Non- Registered Reporting Member shall report within 90 seconds after execution, by transmitting through the Automated Confirmation Transaction Service ("ACT") or the ACT Service Desk (if qualified pursuant to Part VIII of Schedule D of the By-Laws), or if ACT is unavailable due to system or transmission failure, by telephone to the Market Operations Department in New York City, last sale reports of transactions in NASDAQ/NMS securities executed during normal market hours. Transactions not reported within 90 seconds after execution shall be designated as late and such trade reports must include the time of execution.

Further, the Company as a Non-Registered Reporting Member shall report weekly to the Market Operations Department in New York City, on a form designated by the FINRA Board of Governors, last sale reports of transactions in NASDAQ/NMS securities which are not required to be reported under the foregoing paragraphs or under the reporting requirements for transactions outside normal market hours. Given that the Company is a Non-Registered Reporting Member, where the Company effects a transaction with another FINRA Member Firm, the Company shall only be required to report where the Company is representing the sell side of the transaction, otherwise the Registered Reporting Market Maker shall be responsible for reporting all transactions, or the Non-Registered Reporting Member on the sell side of the transaction. The Company shall also be required to report in transactions between the Company and a customer. The last sale report shall contain the following information:

1. NASDAQ Symbol of the NASDAQ/NMS security;

2. Number of shares (odd lots shall not be reported);

3. Price of the transaction as required pursuant to the FINRA By-Laws;

4. A symbol indicating whether the transaction is a buy, sell, or cross.

5. The time of execution if the trade is reported more than 90 seconds after execution.

### 8.20.1 HTS Inventory Account

Pursuant to clearing firm requirements, Company must utilize an inventory account to process customer fixed income orders. Company does not hold positions in this account. Company processes dealer side of order first and then customer order. Inventory account is checked daily by the Trading Dept. Subsequently, the customer account is verified to ensure the proper processing of order. Any sales credit or markup/markdown is reviewed at the time the order is entered by the Trading Department as well as by Laura Hendricks on the trade blotters. Any balance that may remain in the inventory account would not only be detected by Company Trading Department but also by the clearing firm P&S Department (who initiates an email to Company Operations the following day for further controls).

### 8.20.2 Rule 5320-Prohibition against Trading Ahead of Customer Orders

If Company accepts and holds an order in an equity security from its customer without executing immediately executing the order is prohibited from trading that security on the same side of the market for its own account at a price that would satisfy the customer order, unless it immediately executes the customer order up to the size and at the same price or better price at which it traded for its own account. Pending orders are executed on a first-in/first-out basis. Further procedures will be adopted if Company becomes a market maker.

## 8.21 Short Sales Activities

With respect to all short sale trading activities, the Company shall adhere to the following policies as it pertains to same. Prior to affecting a short sale for a customer's account, the Company shall determine the availability to borrow such security to cover said position.

All short sale orders will be routed to the clearing firm for execution. However, before accepting a short sale order from a customer, the Company shall either (i) contact the clearing firm and inquire whether the stock can be borrowed for delivery against the short sale. If it can, the registered representative accepting the order shall note the name of the person that assured that the security could be borrowed; or (ii) the Company shall utilize an “Easy to Borrow” list prepared by the clearing firm. If the latter practice is adopted the list must be less than 24 hours old. NOTE: Pursuant to Rule 203 of Regulation SHO, a “Hard to Borrow” list may not be utilized. Morris Monroe or his designee shall enforce this procedure by reviewing 10 short sales each month or if there are less than 10, all short sales, and ensuring that the proper notations are on the order ticket. He shall evidence his review by initialing the ticket.

Further to the extent a security carries a UPC 71 designation, (notating that the security is not borrowable), no short sales shall be affected in such security unless any of the following circumstances exist:

\* The short position is entered into as a non-market maker transaction and is covered within ten business days. Morris Monroe shall be responsible for the establishment and maintenance of routine procedures to abide by the ten-day maximum positioning.

\* The short position is part of a true hedge or arbitrage.

The Company will not execute short sale positions in NASDAQ National Market securities at or below the inside bid when the current inside bid is below the previous inside bid. Absent an exemption from the rule, the Company shall not affect a short sale at or below the inside bid in a security in an account for a customer if there is a red down arrow, indicating a down bid, next to the security's symbol on the NASDAQ terminal. To the extent a security is at an up bid, a green "up arrow" shall be denoted on the NASDAQ terminal. When executing a short sale on a down bid, the short sale must be executed at a price at least 1/16th above the current inside bid.

The Company will review the trade reports to determine whether a sale is long or short in accordance with Rule 3b-3 and Rule 3350 (Short Sale Rule) of the FINRA Rules. For purposes of this section and Regulation SHO, the definition of a short sale shall be a sale of a security that the seller does not own at the time the order is entered, or any sale that is consummated by the delivery of a security borrowed by, or for the account of, the seller, and a sale of a security where an exchangeable security is owned unless the exchange process has already begun (i.e. convertible preferred shares). In determining whether the seller is long or short overall, the Company shall net all of the seller's positions in the security, as is required in short sales for exchange-listed securities.

Under Regulation SHO, all sales must be marked as long, short, or short exempt. Orders marked as short or short exempt will require the person entering the order to note how they made affirmative determination that the stock is available to short. In HTS, the user will be able to enter one of the following: 1) Easy to Borrow – selected if the user referenced the Easy to Borrow list via Report Distribution; 2) Manual – selected if HTS Stock Loan Department was contacted and asked to perform the locate of the shares (866-797-4150); or 3) Market Maker – selected if the order is being entered by a bona fide market maker in the stock and the order is part of a bona fide market making transaction and is therefore exempt. Orders marked “long sale” indicate that the stock is long in the account or that you can reasonably expect to have good delivery by settlement date. The Company must note on the ticket that the seller can deliver the security in a negotiable form by settlement date and where the customer holds the security or who the Company can borrow the security from at the time of the sale. Further, in accordance with the Board of Governor's Interpretations of FINRA Rules with respect to "Affirmative Determinations", the Company shall adhere to the following requirements,

* + 1. Customer short sales. Neither the Company nor any associated person shall accept a "short" sale order for any customer in any security unless the Company or associated person makes an affirmative determination that the Company will receive delivery of the security from the customer or that the Company can borrow the security on behalf of the customer for delivery by settlement date. This requirement shall not apply, however, to transactions in corporate debt securities.
    2. To satisfy the requirement for an "affirmative determination" contained in subsection (i) and (ii) above for customer and proprietary short sales, the Company or an associated person thereof must keep a written record which includes:
* if a customer assures delivery, the present location of the securities in question, whether they are in good deliverable form and the customer's ability to deliver them to the Company within three (3) business days; or
* if the Company or associated person locates the stock, the identity of the individual and firm contacted who offered assurance that the shares would be delivered or that were available for borrowing by settlement date and the number of shares needed to cover the short sale.

Prior to entering a short sale transaction on the SOES system, where the customer has not assured delivery, all Registered Representatives of the Company shall be required to make an Affirmative Determination through the Company's clearing broker.

1. The manner by which the Company or Associated Person thereof annotates compliance with the "affirmative determination" shall be reflected by recording all inquiries on the individual order tickets. Such notations shall include the name of the individual giving the affirmative determination on behalf of the Company's clearing broker, the number of shares available to cover the short sale, whether the shares are available for borrowing and that the shares are deliverable within three (3) business days. However, it is noted here that an affirmative determination and annotation of that affirmative determination must be made for each and every transaction since a "blanket" or standing assurance that securities are available for borrowing is not acceptable to satisfy the affirmative determination requirement. It is noted here that an affirmative determination and annotation of that affirmative determination may be achieved using a "blanket" or standing assurance (Easy to Borrow list) that securities are available for borrowing. The assurance must be updated daily and the fact that the list was consulted for each short sale must be notated on each order ticket. Rule 3370 further provides that if a member relying on a blanket or standing assurance fails to deliver the security on settlement date, the FINRA will deem such conduct inconsistent with the terms of the rule, absent mitigating 0circumstances adequately documented by the member.

Amendments to Rule 3370 permit the use of a “Hard to Borrow” list to comply with the affirmative determination requirement for short sales in The NASDAQ Stock Market, Inc. (NASDAQ) National Market (NM) and exchange-listed securities.

In general, a “Hard to Borrow” list includes all securities that are difficult to borrow or unavailable for borrowing. A user of a “Hard to Borrow” list may believe it is reasonable to infer, under appropriate circumstances, that a specific security absent from the list is easy to borrow. In this regard, the amendment to Rule 3370 permits members and associated persons to rely on a “Hard to Borrow” list for any short sales executed in NASDAQ NM or exchange-listed securities, provided that:

1. The creator of the list attests in writing that any NASDAQ NM or exchange-listed securities not included on the list are easy to borrow or are available for borrowing; and
2. Any securities restricted pursuant to Uniform Practice Code (UPC) 11830 are included on the list.

Under the amendment, member firms will be able to refer to the “Hard to Borrow” list before executing a short sale in a given security. If that security is not on the list, the member or associated person will be considered to have made the requisite affirmative determination and will be permitted to execute the short sale without taking any further steps to satisfy the affirmative determination rule. Conversely, if the security is on the list, then a member or associated person will not be permitted to execute the short sale without taking additional steps to ensure the security’s availability.

The amendment requires that the creator of a “Hard to Borrow” list attest in writing to the availability of securities not on the list and provide such written statement for each “Hard to Borrow” list created. When the creator of a “Hard to Borrow” list attests in writing, as the amendment requires, that any securities not included on the list are available for borrowing or are easy to borrow, reliance on such “Hard to Borrow” list is substantially similar to reliance on an “Easy to Borrow” list, which is already permitted under FINRA Rule 3370. It is the responsibility of the member or associated person using the list to determine that the creator of the list is reliable.

The same requirements that apply to use of “Easy to Borrow” lists also will apply to “Hard to Borrow” lists. In particular, a member or associated person will be permitted to use a “Hard to Borrow” list under the amendment only if the information used to generate the list is less than 24 hours old and the member delivers the security on settlement date. If the member does not deliver the security on settlement date, FINRA will consider such conduct-absent documented mitigating circumstances - inconsistent with the terms of FINRA Rule 3370. The member or associated person relying on a “Hard to Borrow” list is obligated to maintain a written record of the determination that the security was available for borrowing, including the identity of the individual and firm that offered the assurance that securities absent from the list were available for borrowing or easy to borrow. Although the rule does not specify the manner in which firms should record and maintain such information, a copy of the “Hard to Borrow” list relied upon may be necessary to demonstrate that the requirements of Rule 3370 were met, including that the information used in generating the list was less than 24 hours old, the creator attested in writing that the securities not on the list were easy to borrow, and that any securities restricted pursuant to UPC 11830 were included on the list.

The amended rule will permit the use of “Hard to Borrow” lists only for NASDAQ NM and exchange-listed securities. For NASDAQ Small Cap and over the counter (OTC) equity securities, members can continue to comply with the requirements of Rule 3370 through the use of “Easy to Borrow” lists.

When executing short sale trades, the Company will adhere to the following:

a. Short sales which are entered as SelectNet orders shall be marked as short sales or short exempt at the time of order entry.

b. The Company shall monitor all open SelectNet short- sale orders to comply with the Short Sale Rule. Any and all SelectNet and or SOES transactions shall be handled through the Company’s clearing broker.

c. The Company shall monitor all SOES short-sale orders to comply with the Short Sale Rule. Any and all SelectNet and or SOES transactions shall be handled through the Company’s clearing broker.

d. Pursuant to Regulation SHO, sell orders in all equity securities shall be marked “long,” “short,” or “short exempt.”

In addition, pursuant to Section 12(k)(2) of the Securities Exchange Act of 1934, in connection with transactions in the publicly traded securities of certain financial institutions listed below, no person may effect a short sale in these securities using the means or instrumentalities of interstate commerce unless such person or its agent has borrowed or arranged to borrow the security or otherwise has the security available to borrow in its inventory prior to effecting such short sale and delivers such security on settlement date.

|  |  |  |
| --- | --- | --- |
| Allianz SE  BNP Paribas Securities Corp  Bank of America Corp  Barclays PLC  Citigroup Inc.  Credit Suisse Group | Daiwa Securities Group Inc. Duetsche Bank Group AG  Fannie Mae  Freddie Mac  Goldman Sachs Group Inc.  HSBC Holdings PLC ADS | Merrill Lynch & Co Inc.  Mizuho Financial Group Inc.  Morgan Stanley  Royal Bank ADS  UBS AG |

### 8.21.1 Short Sale Price Test

Short Sales of covered securities (NMS stocks traded on a national exchange, except options, or in the OTC market) are subject to a circuit breaker and uptick rule. When a circuit breaker is triggered, by the listing market, short selling is permitted only at a price above the current national best bid. The following requirements apply:

* A short sale order may not be executed or displayed at a price that is less than or equal to the current national best bid if the price of the covered security decreases by 10% or more from the security's closing price determined by the listing market as of the end of regular trading hours on the prior day.
* The above requirements apply for the remainder of the day and the following day when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan.

HTS systems identify covered securities subject to price test requirements. Traders are responsible for complying with price test requirements.

There are exemptions to the short sale price test that apply when the price test circuit breaker is triggered. When relying on the exemptions, the trade order must be marked “short exempt.”

* **Broker-Dealer Provision.**  Rule 201 permits a broker-dealer to mark certain qualifying sell orders as "short exempt" if the broker-dealer reasonably determines that it is submitting the short sale order to the trading center at a price that is above the current national best bid at the time of submission.
* **Sellers Delay in Delivery.** Orders may be marked "short exempt" when a broker-dealer has a reasonable basis to believe that a seller owns the securities but is unable to deliver them prior to settlement because of circumstances outside of the seller's control.
* **Odd Lot Transactions.** An odd lot short sale order may be marked "short exempt" by a market maker if it has a reasonable basis to believe that the order offsets a customer odd-lot order or liquidates an odd-lot position that changes such broker-dealer's position by no more than a unit of trading.
* **Domestic and International Arbitrage.** Certain domestic or international arbitrage transactions may be marked "short exempt."
* **Over-Allotments and Lay-Off Sales.** Rule 201(d)(5) permits a broker-dealer to mark as "short exempt" short sale orders by underwriters or members of a syndicate in connection with over-allotments, or in connection with lay-offs by the same persons through a rights or standby underwriting commitment.
* **Riskless Principal Transactions.** Rule 201(d)(6) permits a broker-dealer to mark short sale orders "short exempt" when the broker-dealer facilitates customer buy orders or sell orders where the customer is net long, and the broker-dealer is net short but is effecting the sale as riskless principal. Rule 201(a)(8) defines the term "riskless principal" to mean "a transaction in which a broker or dealer, after having received an order to buy a security, purchases the security as principal at the same price to satisfy the order to buy, exclusive of any explicitly disclosed markup or markdown, commission equivalent, or other fee, or, after having received an order to sell, sells the security as principal at the same price to satisfy the order to sell, exclusive of any explicitly disclosed markup or markdown, commission equivalent, or other fee."
* **Transactions on a Volume-Weighted Average Price Basis.** Orders executed on a volume-weighted average price ("VWAP") may be marked "short exempt" provided that they satisfy several conditions in Rule 201(d)(7).

### 8.21.2 Section 71 of the Uniform Practice Code

**UPC Sec.71.** **Mandatory Close-Out for Short Sales**

In accordance with the provisions of UPC Sec. 71, a contract involving a short sale in NASDAQ securities, which have clearing short positions of 10,000 shares or more and that are equal to at least one-half (1/2) of one percent of the issue’s total shares outstanding, for the account of a customer or for a member’s own account, which has not resulted in delivery by the broker-dealer representing the seller within 10 business days after the normal settlement date, shall be closed out by the Company to the extent the Company is the broker-dealer representing the seller by purchasing for cash or guaranteed delivery securities of like kind and quantity.

Section 71 of the UPC requires the short seller’s broker/dealer to close out a short sale of specific securities 10 days after the normal settlement date if delivery of securities has not occurred and the transaction is not exempt. Securities subject to the close-out requirement are those with an aggregate “clearing” short position of 10,000 shares or more that equals or exceeds one half of one percent of the total shares outstanding. The FINRA identifies these securities daily based on data from the National Securities Clearing Corporation (NSCC) and compiles a “restricted list.” Any subsequent short-sale transaction in a security on the list that is not completed by delivery of shares within the prescribed time frames will be subject to mandatory close-out if a “fail-to-deliver” situation exists 10 days after normal settlement date.

The rule applies to customer and proprietary short sales, but exempts “bona fide” market-making activities and short sales that result in a “bona fide” fully hedged or arbitraged position. For example, the close-out rule applies if a broker/dealer sells a restricted security short from its proprietary account to another broker/dealer and fails to deliver the security within 10 days of normal settlement date. The rule also applies if the Company makes the same transaction for a customer. However, if the short sale is part of a bona fide market-making transaction or if the sale of a restricted security results in a fully hedged or fully arbitraged position, it is exempt from the mandatory close-out requirement. Since the Company will not act as a market maker in any transaction, the exemption available for market making transactions will not be applicable or available to the Company for short sale transactions.

NASDAQ Level 2 and Level 3 Workstations show a short-sale restriction indicator (“UPC 71” appears below the name of the company) on their bid/ask screens and a list of restricted securities are available online. Further, the FINRA makes each day’s list available on request via FAX or mail to any person calling the FINRA Market Operations Department at (203) 375–9609.

### 8.21.3 FINRA Rule 4560. Short Interest Reporting

Pursuant to Rule 4560, Company, through its clearing firm, Hilltop Securities (HTS), will maintain a record of total short positions in all customer and proprietary firm accounts in OTC Equity Securities and securities listed on a national securities exchange and HTS shall regularly report such information to FINRA in such a manner as may be prescribed by FINRA. Reports shall be made as of the close of the settlement date designated by FINRA.

### 8.21.4 FINRA Rule 2114-OTC Equity Securities

In addition to regulatory suitability requirements, if any Associated Person recommends the purchase or short sale of an OTC security not listed on an exchange or any other high-risk security, Company will adhere to the following:

#### 8.21.4.1 Definitions

(1) For purposes of this Rule, the term "current financial statements" shall include:

(A) For issuers that are not foreign private issuers,

(i) A balance sheet as of a date less than 15 months before the date of the recommendation;

(ii) A statement of profit and loss for the 12 months preceding the date of the balance sheet;

(iii) If the balance sheet is not as of a date less than 6 months before the date of the recommendation, additional statements of profit and loss for the period from the date of the balance sheet to a date less than 6 months before the date of the recommendation;

(iv) Publicly available financial statements and other financial reports filed during the 12 months preceding the date of the recommendation and up to the date of the recommendation with the issuer's principal financial or securities regulatory authority in its home jurisdiction, including the SEC, foreign regulatory authorities, and bank and insurance regulators; and

(v) All publicly available financial information filed with the SEC during the 12 months preceding the date of the recommendation contained in registration statements or SEC Regulation A filings.

(B) For foreign private issuers,

(i) A balance sheet as of a date less than 18 months before the date of the recommendation;

(ii) A statement of profit and loss for the 12 months preceding the date of the balance sheet;

(iii) If the balance sheet is not as of a date less than 9 months before the date of the recommendation, additional statements of profit and loss for the period from the date of The balance sheet to a date less than 9 months before the date of the recommendation, if any such statements have been prepared by the issuer; and

(iv) Publicly available financial statements and other financial reports filed during the 12 months preceding the date of the recommendation and up to the date of the recommendation with the issuer's principal financial or securities regulatory authority in its home jurisdiction, including the SEC, foreign regulatory authorities, and bank and insurance regulators.

(2) For purposes of this Rule, the term "current material business information" shall include information that is ascertainable through the reasonable exercise of professional diligence and that a reasonable person would take into account in reaching an investment decision.

(3) For purposes of this Rule, the term "OTC Equity Security' shall have the meaning described in [Rule 6420](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4409).

#### 8.21.4.2 Review

Associated Person or designated person with the requisite skills will review the current financial statements of the issuer, current material business information about the issuer, and make a determination that such information, and any other information available, provides a reasonable basis under the circumstances for making the recommendation. Said review will be documented with the date of the review, and the name of the person performing the review of the required information. In the event that the person designated to perform the review is not registered as a General Securities Principal or General Securities Sales Supervisor, the member shall also document the name of the General Securities Principal or General Securities Sales Supervisor who supervised the designated person.

If an issuer has not made current filings required by the issuer's principal financial or securities regulatory authority in its home jurisdiction, including the SEC, foreign regulatory authorities, or bank and insurance regulators, such review must include an inquiry into the circumstances concerning the failure to make current filings, and a determination, based on all the facts and circumstances, that the recommendation is appropriate under the circumstances. Such a determination must be made in writing and maintained by the member.

#### 8.21.4.3 Exemptions

The requirements of this Rule shall not apply to:

(A) Transactions that meet the requirements of Rule 504 of SEC Regulation D and transactions with an issuer not involving any public offering pursuant to Section 4(2) of the Securities Act;

(B) Transactions with or for an account that qualifies as an "institutional account" under Rule 4512(c) or with a customer that is a "qualified institutional buyer" under Securities Act Rule 144A or "qualified purchaser" under Section 2(a)(51) of the Investment Company Act;

(C) Transactions in an issuer's securities if the issuer has at least $50 million in total assets and $10 million in shareholder's equity as stated in the issuer's most recent audited current financial statements, as defined in this Rule;

(D) Transactions in securities of a bank as defined in Section 3(a)(6) of the Exchange Act and/or insurance company subject to regulation by a state or federal bank or insurance regulatory authority; or

(E) A security that has a bid price, as published in a quotation medium, of at least $50 per share. If the security is a unit composed of one or more securities, the bid price of the unit divided by the number of shares of the unit that are not warrants, options, rights, or similar securities must be at least $50.

Pursuant to the FINRA 9600 rule series, for good cause shown after taking into consideration all relevant factors, may exempt any person, security or transaction, or any class or classes of persons, securities, or transactions, either unconditionally or on specified terms, from any or all of the requirements of this Rule if it determines that such exemption is consistent with the purpose of this Rule, the protection of investors, and the public interest.

## 8.22 FINRA Rule 5240-Anti-Intimidation/Coordination *(eff 06/15/09)*

Pursuant to just and equitable principles of trade and Rule 5240, Company shall not engage in any of the following:

(1) Coordinate the prices (including quotations), trades or trade reports with any other member or person associated with a member, or any other person;

(2) Direct or request another member to alter a price (including a quotation); or

(3) Engage, directly or indirectly, in any conduct that threatens, harasses, coerces, intimidates, or otherwise attempts improperly to influence another member, a person associated with a member, or any other person. This includes, but is not limited to, any attempt to influence another member or person associated with a member to adjust or maintain a price or quotation, whether displayed on any facility operated by FINRA or otherwise, or refusals to trade or other conduct that retaliates against or discourages the competitive activities of a market maker or market participant.

Provided that the conduct in subparagraphs (a) through (g) below is otherwise in compliance with all applicable law, nothing in this Rule respecting coordination of quotes, trades or trade reports shall be deemed to limit, constrain, or otherwise inhibit the freedom of a member or person associated with a member to:

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

## 8.23 Designated Securities Transactions

For purposes of this section, the term "Designated Security" shall mean a non-NASDAQ over-the-counter equity security that sells for less than $5 per share issued by a company with less than $2,000,000 in net tangible assets.

The following are **not** considered penny stocks subject to the requirements outlined in this section:

* A reported security as defined in Regulation NMS Rule 601.
* The stock is priced at $5.00 or more per share.
* Shares of investment companies.
* The stock is listed on an exchange.
* Security futures.
* The issuer has net tangible assets in excess of $2 million, if the issuer has been in continuous operation for at least 3 years, or $5,000,000 if in continuous operation for less than 3 years; or average revenue of at least $6,000,000 for the last 3 years.

Penny stocks include the equity securities of private companies with no active trading market if they do not qualify for one of the exclusions from the definition of penny stock.

Associated Persons should assume that any unlisted securities priced less than $5.00 per share may be subject to the penny stock requirements.

Morris Monroe, the designated principal, or designee shall be responsible for all transactions in designated securities and compliance with SEC Rule 15c2-6. Currently, it is the Company policy that we do not recommend any purchases for designated securities, however, from time to time, may execute an unsolicited request for a designated security transaction.

In the event this policy changes, all Associated Persons shall be required, prior to recommending a designated security to a customer that is not an established customer or accredited investor, to first obtain sufficient information from the customer about his or her financial situation, investment experience, and investment objectives. This includes reviewing the financial profile and current material business information prior to recommending any purchase. In addition, all associated persons shall be required to complete the Customer Suitability Statement and Agreement to Purchase Form for submission to Morris Monroe or his designee.

An "established customer" is one who has had a trade or a deposit in his or her account with the Company that occurred at least one year earlier or has previously made three purchases of designated securities on separate days involving different issuers. Further, an "accredited" investor is one whose knowledge and experience in securities matters, or whose financial resources, satisfy standards prescribed by SEC Regulation D. These include financial institutions, officers of an issuer, or investors with a net worth of $1,000,000 (excluding their private residence).

## 8.24 REITS

REITs invest in different types of real estate or real estate related assets such as shopping centers, apartment buildings, office buildings, hotels, and mortgages secured by real estate. The three types of REITs include:

* Equity REITs that invest in or own real estate with income principally from rents collected
* Mortgage REITs that lend money to owners and developers or invest in financial instruments secured by mortgages on real estate
* Hybrid REITs that combine the investment strategies of equity and mortgage REITs

### 8.24.1 General Guidelines

REITs trade on national exchanges or in the over-the-counter market; some mutual funds specialize in public real estate. Some REITs invest specifically in one area of real estate (for example, apartment buildings) or in one specific geographic region. REITs generally provide ongoing dividend income along with the potential for long-term capital gains.

When offering REITS, Associated Persons must consider the following:

* The suitability of recommending a REIT, consider the investor's investment objectives and need for income and the risks of the REIT including the use of leverage.
* Apply a volume discount if it is available.
* For unlisted REITs, consider liquidity and marketability and advise the investor of such risks [FINRA Rule 2810(b)(3)(D)]
* Customer account statements may include valuations and disclosures regarding certain REITs [FINRA Rule 2810(b), Notice to Members 01-08].
* Requirements regarding sales contests and cash/non-cash compensation apply to REITs [FINRA Rule 2810, Notice to Members 05-40].
* Orders to be reviewed by a principal.

### 8.24.2 Private and Non-traded REITs

Private and non-traded REITs are companies whose shares do not trade on a national stock exchange. They generally operate like unit investment trusts by purchasing assets that are held for a fixed amount of time, often 7 to 10 years, and will either sell off the properties or do an IPO at the end to exit the fund and deliver returns to shareholders.

There are features and risks which RRs must be familiar with prior to recommending a private or non-traded REIT.

* Sales costs are deducted from the offering price.
* The investment is illiquid during the term of investment which may be 7 to 10 years. Trying to liquidate the investment earlier is often difficult or costly or may be impossible.
* Many companies offer some form of redemption plan, but these are very limited, often limited to 3% of the shares outstanding in a year and involve a significant penalty.
* The fixed portfolio and long-term horizon provide a level of stability since the REIT is not required to sell properties to meet investor liquidation requirements.
* Non-traded REITs pay monthly or quarterly dividends which may be higher than publicly traded REITs; however, dividends are not guaranteed.
* Dividends may include repayment of principal in early stages of the program.
* Private REITs are not required to provide the same level of quarterly disclosure as publicly traded REITs.
* They impose minimum income and/or net worth requirements.

RRs are obligated to determine the investor meets the requirements and completes any necessary subscription agreements.

## 8.25 ETFs – Exchange Traded Funds

ETFs are special mutual funds or UITs that are listed on an exchange and can be traded like stocks intraday at a price set by the market. Not all ETFs are the same. Most ETFs attempt to replicate the performance of a stock index or bond index and are therefore referred to as index or index-based ETFs. Some of the most popular index ETFs track the very largest and most popular stock and bond market indices — the Standard and Poor's 500, Dow Jones Industrial Average and NASDAQ Composite Index.

Other index ETFs track indices that are based on the market capitalization of the underlying companies (e.g. Small Cap ETFs). There are also index-based ETFs which track more narrow segments of the markets, such as the financial sector or individual commodities (e.g. gold). There also are Leveraged and Inverse ETFs that are designed to return a multiple of a benchmark index's performance (or inverse of performance) over a specific, pre-set time period, typically daily. Finally, there are index ETFs that track international markets, including specific countries and regions around the world. It is extremely important for Associated Persons to understand the type of ETF being considered, as each type carries its own risks and features and present such features to customers. ETFs are subject to the same suitability standards and due to the complexity of some ETFs, they may not be suitable for most customers. A prospectus, if applicable, would need to be disseminated to the customer as well or "product description." Some ETFs have obtained exemptive relief from the SEC allowing provision of a description instead of a prospectus.

Leveraged and Inverse ETFs are not designed for buy-and-hold investors to track an index over a long period of time but rather reset daily. They are intended for very aggressive, sophisticated investors and typically unsuitable for retail investors. Associated Persons may not recommend an inverse or leveraged ETF without approval from Morris Monroe.

## 8.26 Limit Order Procedures

The Company does not execute orders. All limit orders are forwarded to Hilltop Securities for routing. If a customer requests that a limit order not be displayed, the request shall be forwarded to Hilltop Securities along with the order.

However, it is a policy of the Company that in keeping with the Board of Governor’s Interpretation of FINRA Conduct Rule 2010 and FINRA Conduct Rule 2320 (“Best Execution Rule”) to the extent the Company acts as a market maker and handles customer limit orders, whether received from customers of the Company or from customers of another broker/dealer, the Company shall not trade at prices equal to or superior to that of the customer’s limit order without executing the limit order. Further, the Company shall not rely on any so called “safe harbor” to trade ahead of a customer limit order. Currently, the Company does not act as a market maker. In addition, the Company does not trade for its own account and therefore the **Manning Rule** does not apply.

Further, it shall be the responsibility of Morris Monroe or his designee to make clear to institutional customers of the Company the terms and conditions under which institutional accounts or appropriately sized customer limit orders are to be accepted at the time the order is accepted by the Company so that trading ahead in its market making capacity does not occur. It is a policy of the Company that by accepting a customer limit order, the Company owes its customers duties of “best execution” regardless of whether the orders are executed through the Company’s market making activities or sent to another broker/dealer for execution. Currently, the Company does not act as a market maker.

If applicable, in stocks where Company is not a market maker, customer limit orders under 10,000 shares will be reflected through the use of electronic approved trading mediums (ECN’s). As a backup due to system problems over-capacity or ECN problems, all limit orders that need to be reflected will be routed to other market makers.

Since Company is currently not a market maker, customer limit orders will be placed with the clearing firm or those broker/dealers who we have a payment for order flow.

Any limit order a customer requests not be reflected amongst competing quotes will be honored.

## 8.27 Best Execution

In accordance with Rule 2320, Company will use reasonable diligence to ascertain the best inter-dealer market and buy or sell so that the resultant price to the customer is as favorable as possible under the prevailing market conditions. Reasonable diligence shall consist of; the character of the market, size and type of transaction; the number of primary markets checked; and the location and accessibility to the company to the primary markets and quotation services.

Even though the Company forwards its orders to the clearing firm for routing and execution, the Company is still subject to FINRA Rule 2320 and to the SEC Best Execution Rules. The Company is relying on its clearing firm’s regular and rigorous review of its executions. This shall be documented by receiving copies of the clearing firm reports by Morris Monroe or Compliance as required pursuant to SEC Rules 11Ac1-6 and 11Ac1-5 and maintain them in a file for this purpose.

Even though the company may maintain order–flow agreements or a clearing arrangement with another broker-dealer where orders are routed automatically for execution, the Company must periodically assess the quality of competing markets to assure the best price to the customer. Morris Monroe will assess the quality of competing markets by assessing such factors as price, speed, cost of execution, and technological aids in executing and processing trades. Such review will be done on a random monthly basis for all broker-dealers that Company has an order-flow agreement.

## 8.28 Payment for Order Flow

If the Company should receive such a payment for order flow, the Company shall ensure that all customers receive the best execution possible. However, Company currently does not route orders to any other facility other than to the clearing firm.

In accordance with SEC Rule 11 Act-3 and amendments to Rule 10b-10 concerning payment for order flow practices, the Company shall:

a. Inform each customer in writing, when a new account is opened, about its policies regarding the receipt of payment for order flow, including whether or not payment for order flow is received and a detailed description of the nature of compensation received. This is accomplished through the Hilltop Securities (HTS) Customer Information Brochure given to each HTS new account (and annually thereafter within their HTS September account statement).

b. Provide information in account opening documents about order-routing decisions if applicable, 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.

c. Indicate on confirmations whether the Company receives payment for order flow, and the availability of further information upon request. In addition, according to **Rule 10b-10**, the Company will provide to customers immediate written notification of information relevant to their securities transactions. Consistent with the Commission's investor protection mandate and in keeping with innovations in securities products and markets, the Company will provide information concerning customer transaction costs in specified NASDAQ and exchange-listed securities, the status of certain unrated debt securities, the status of certain non-SIPC member broker-dealers, and the availability of information regarding asset-backed securities.

The foregoing payment for order flow procedures apply to transactions in NASDAQ National Market System securities, NASDAQ Small Cap Market SM securities, and Over the Counter Bulletin Board securities. The requisite disclosures required under amendments to Rule 10b-10 shall be made on the customer's confirmations as issued by Hilltop Securities, Inc. It shall be Morris Monroe's or Compliance’s responsibility to review customer confirmations for compliance with the requisite disclosures.

## 8.29 Order Execution and Routing Practices

### 8.29.1 SEC Rule 606 Disclosure of Order Routing Information

Morris Monroe will be responsible to ensure that the Company complies with SEC Rule 606.

**Exemption**

The Company does not make any routing decisions. No trades through Hilltop Securities, Inc. (HTS) are routed back to the Company. Any applicable routing information would be included in the disclosures made by Hilltop Securities in their quarterly disclosures on their website ([www.hilltopsecurities.com](http://www.hilltopsecurities.com), departments/equity trading/1-6 posting). In addition, the SEC is granting a limited exemption for the Rule for broker-dealers that route a de minimus number of customer orders in covered securities for execution. Specifically, the Commission is exempting from the quarterly reporting requirement those firms that have routed, on average, 500 or fewer customer orders in covered securities per month during the preceding calendar quarter. The Company currently meets this exemption.

Firms eligible for this limited exemption must still comply with the Rule, which requires them to provide interested customers with routing information about specific orders and to notify customers annually that such information is available. Routing information is available from the above website from inquiry through HTS as to the venue which the customer’s order was routed in the six months prior to the request whether they are directed or non-directed and the time of execution. The annual notification is provided by HTS via customer statements and a copy of said statement will be maintained by Company, initialed by Morris Monroe or Compliance, and maintained as part of the Company’s records for three years.

Pursuant to FINRA Rules 3310 and IM-3310, only authorized persons of the Company have access to the Company’s trading systems which includes controls that limit the use of such systems to authorized persons only, enables the personnel to check for order accuracy, prevent orders that exceed preset credit- and order-size parameters from being transmitted to a trading system, and prevents the unwanted generation, cancellation, repricing, resizing, duplication, or re-transmission of orders. The operation of the HTS trading system does not allow inadvertent disabling of the system. HTS has built-in systems (red flags, alerts, error messages) to prevent mistaken executions, inadvertent errors, and other trading problems. Order Routing reports are available quarterly and will be reviewed and maintained by the Company as part of its records (with principal initials).

### 8.29.2 SEC Rule 605 – Best Execution

Company relies on the best execution practices of Hilltop Securities and the Rule 605 monthly reports they make available through their website. These reports will be reviewed and maintained as evidence of review in an excel file for a period of three years. Pursuant to Rule 3380, Order Entry and Execution Practices, the Company and its Associated Persons are prohibited from splitting any order into multiple smaller orders for execution, or any execution into multiple smaller executions for transaction reporting for the primary purpose of maximizing a monetary or in-kind payment to the Company or Associated Persons as a result of the execution of such orders or the transaction reporting of such executions (known as “trade shredding”). However, the Company is not a Market Participant nor does it share in any Plan revenues with Market Participants.

## 8.30 Market-Wide Trading Halts

During market-wide trading halts resulting from the triggering of circuit breakers, Morris Monroe will be responsible to ensure that customer orders will be handled in the same manner as they would have been handled during other regulatory trading halts concerning only individual stocks.

During market-wide trading halts of durations that will allow trading to resume on that same trading day, pending and new customer orders will be forwarded by HTS to the appropriate market for execution upon the resumption of trading. This should be done unless the Company receives contrary instructions from the customer during the halt.

During market-wide trading halts with durations that will close the market for the remainder of the trading day, pending and new customer orders should be treated as follows:

Absent customer instructions to the contrary, orders that are pending at the time of the halt, and new orders received after the halt has commenced will be treated as “*Good Till Canceled*” orders and be held by HTS for execution at the reopening of the next trading session.

“At-the-Close” orders (including “Market-at-Close” orders) pending at the time trading is halted will be treated as canceled orders. Company will not accept, or forward any new orders related to closing prices received during a trading halt.

### 8.30.1 FINRA Rule 5260 - Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts *(eff 12/14/09)*

Company and Associated Persons shall not, directly, or indirectly, effect any transaction in any security as to which a trading halt is currently in effect. If FINRA closes trading in a security pursuant to its authority under Rule 6120(a)(3), Company may trade through other markets for which trading is not halted. In addition, Company or Associated Persons do not engage in transactions in futures and therefore cannot directly or indirectly effect any such transactions during a regulatory trading halt that is currently in effect.

## 8.31 Market Outages

In the event Company experiences a system outage or other technology-related problem that impacts our ability to meet the obligations imposed by the applicable rules, Company should send a message to the appropriate e-mail address below that includes the following information:

* the date(s) the system problem occurred;
* the specific systems that were affected (*e.g.*, the member's internal systems, third party vendor system);
* the exact nature of the problem (*e.g.*, complete outage, slow transmission times);
* the time the problem began;
* the time the member first detected the problem;
* the time the problem was resolved and a brief description of the resolution;
* the level of activity impacted (*e.g.*, the approximate number of trades not reported) and a description of how the impact will be addressed (*e.g.*, trade reports to be submitted on an "as of" basis the next business day);
* contact name and telephone number; and
* any additional information deemed relevant by the member firm reporting the problem.

*All system outages or technology-related problems involving equities should be reported to* [*tradereporting@FINRA.com*](mailto:tradereporting@nasd.com)*. All system outages or other technology-related problems involving TRACE should be reported to* [*bondreporting@FINRA.com*](mailto:bondreporting@nasd.com)*.*

### 8.31.1 Unexpected Market Day Closures

There are occasions when the securities markets close for business such as a national day of mourning in memory of a President. Whether that day is or is not a regular business day affects various rule requirements including net capital, financial reporting, extensions of time and close-outs. Refer to FINRA Regulatory Notice 18-39 for details regarding how those rules are affected.

## 8.32 Market Volatility and Orders

During extreme market conditions, Morris Monroe will ensure that Company treats all customers fairly and will provide clear disclosure to customers regarding the risks of volatility and volume concerns that may impact the Company’s ability to process orders in a timely and orderly manner.

Registered representatives will disclose that high volumes of trading may cause delays in execution and executions at prices significantly away from the market price quoted at the time the order was entered. They will also disclose the difference between limit and market orders. Customers will be reminded that market orders must be executed fully and promptly without regard to price, therefore the execution may be significantly different from the current quotes. Registered representatives will inform customers that limit orders offer price protection, but the order may not be executed.

Customers will also be informed by registered representatives at applicable times of order discussion that system problems may arise so that orders cannot be placed and that market losses may result. Representatives will also discuss the company’s plan to attempt to alleviate this situation.

Hilltop Securities will notify firm who will then notify customers if it raises the maintenance margin requirements for volatile stocks. A record of any such notice will be kept with firm’s permanent records of correspondence for three years.

Company will rely on HTS’ system to comply with the requirements of Regulation NMS and will obtain affirmation regarding their system and responsibility to comply with executing trades and displaying quotations within price bands and preventing execution of trades during a trading pause.

### 8.32.1 Volatile Stocks

Some securities are characterized by volatility of price and volume. This has, in particular, been a characteristic of some Internet stocks. The RR should know the potential effect of volatility on recommended stocks and discuss these risks when recommending such investments with customers unfamiliar with transactions in these types of securities. Following are some of the conditions potentially affecting volatile stocks:

* High volume in volatile stocks may result in delays in execution at the opening or during the trading day.
* Market orders may be executed at a price significantly different from the current quote. The benefits and risks of market vs. limit orders should be discussed.
* Orders for IPOs in the secondary market may be executed at prices significantly away from the current quote, and, because of "fast market" conditions, the current quote may not be up to date.
* Volatile stocks may be subject to higher margin requirements or not available for purchase on margin.

### 8.32.2 Stop Orders

Stop orders may be used as a tool to manage market risk, but conditions during volatile market conditions may affect them differently than normal market conditions. Customers should be made aware of the risks of stop orders when markets are volatile:

* Stop prices are not guaranteed execution prices.
* Stop orders may be triggered by a short-lived, dramatic price change.
* Sell orders may exacerbate price declines during times of extreme volatility.
* Placing a "limit price" on a stop order may help manage some of these risks.
* Customers should be made aware of volatile market conditions when RRs advise customers in selecting a stop order type and the stop price (or the stop and limit prices for a stop limit order).
* If in place, customers should be notified of the expiration of good-til-cancelled stop and stop limit orders.

## 8.33 Consolidated Audit Trail (CAT)

Under Rule 613 of Regulation NMS, FINRA and the national securities exchanges ("SROs") have developed a consolidated audit trail that enables regulators to oversee securities markets on a consolidated basis to enhance market and investor protections. This section outlines general and supervisory requirements; CAT resources, particularly the CAT website at [www.catnmsplan.com](https://www.catnmsplan.com/)should be consulted for details of requirements and technical guidance. Morris Monroe will be responsible for the overall compliance with CAT reporting. In addition, he will be responsible for ensuring order information is properly submitted to the CAT reporting system (through its Reporting Agent) and the Company is properly setup to implement reporting when notified by FINRA’s phased implementations.

All firms (regardless of size) that receive or originate orders in NMS stocks, OTC equity securities, or listed options must report to CAT. Consequently, Company has registered with the CAT system and appointed HTS as its Reporting Agent. All proprietary trading activity, including market making activity, is subject to CAT reporting. There are no exclusions or exemptions of any kind for type of firm or type of trading activity. If reporting is done by a third party (*e.g.,* clearing firm) Company remains responsible for oversight of reporting. Company must ensure designation of a Super Account Administrator and users. Company must also:

* Create the Company’s Firm Designated ID (FDID) and submit to CAT;
* Monitor reporting to confirm the FDID is used for reporting as required by the Company for reporting;
* Take any corrective action if errors are identified in assigning transactions to the Company’s FDID.

### 8.33.1 Trade Report Information

Company is obligated to report trades to the CAT system through a Trade Reporting Facility (TRF). The obligation to report depends on the security, the type of transaction (buy or sell), and the capacity in which the Firm executes the transaction. Transactions must be reported to a FINRA trade reporting facility unless transactions in eligible securities are reported on or through an exchange. Rules specify the latest time ("no later than \_") by which a trade must be reported, but the obligation is to report "as soon as practicable," *i.e.,* without delay after execution or cancellation.

Company must report market transaction data (Reportable Events) to CAT in a format(s) specified by CAT. These events cover the end-to-end lifecycle of a trade, including but not limited to, quotes, original receipts or originations of an order, modifications, cancellations, routing, receipts of a routed order execution (in whole or in part), and ultimately order allocations.

Market transactions include all NMS Securities, meaning "any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in Listed Options;" and all OTC Equity Securities, meaning "any equity security, other than an NMS Security, subject to prompt last sale reporting rules of a registered national securities association and reported to one of such association's equity trade reporting facilities.".

### 8.33.2 Timeframes for Compliance\*\*

For CAT reporting, there are different timelines for small and large firms. The SEC defines a small firm as a broker or dealer that (a) had total capital (net worth plus subordinated liabilities) of less than $500,000 on the date in the prior fiscal year as of which its audited financial statements were prepared pursuant to SEC Act of 1934 article 240.17a-5(d) or, if not required to file such statements, a broker or dealer that had total capital (net worth plus subordinated liabilities) of less than $500,000 on the last business day of the preceding fiscal year (or in the time that it has been in business, if shorter); and (b) is not affiliated with any person (other than a natural person) that is not a small business or small organization as defined in SEC Rule 0-10. Firms that do not fall into the above category are considered large firms according to the regulation. Refer to the CAT timeline at <https://www.catnmsplan.com/timelines/>.

### 8.33.3 Firm Registration and Reporting

ALL firms are required to register with the CAT system to report. Any third party such as a clearing firm reporting for others is also required to register.

The CAT applies to all U.S. exchanges and firms, including Alternative Trading Systems (ATSs) registered with an SRO, and there are no broker-dealer exemptions from reporting requirements. Any broker-dealer that is a member of a national securities exchange or FINRA and handles orders must report to CAT. Hilltop Securities is designated as Company’s Reporting Agent and will report on behalf of Company, however, if there are any changes necessary or corrections, Company Operations department will be responsible for editing the trade.

Firms can be a(n):

* **Executing firm**: Broker or dealer that processes a buy or sell order on behalf of a customer or another firm. Executing firms have a clear reporting responsibility for the orders they handle, routing of the orders and ultimate execution.
* **Introducing firm**: Broker or dealer that interacts with customers but may not execute trades on behalf of customers. Introducing firms will have a regulatory obligation to report any quotes, new orders, routes and any cancels or amendments to those events.
* **Clearing firm**: Broker or dealer that not only handles orders to buy/sell securities, but also maintains custody of securities and other assets. The act of clearing (including step-ins and step-outs) is not reportable, however, if handling orders or providing execution services, a clearing member has an obligation to report those events. If the clearing member provides reporting services to their correspondent or introducing firms, then the roles and responsibilities should be clearly defined for that operating model. If the clearing firm is reporting on behalf of another firm, then the outsourcing firm may designate the clearing firm as the CAT reporting source on their registration.

**Designated IDs**

Orders are reported using distinct identifiers:

* Customers - defined in Rule 613 and represented by the CAT Customer ID (CCID).
* Trading Accounts - addressed in the NMS Plan and represented by the Firm Designated ID (FDID). This can represent firm or customer accounts. A customer can have more than one trading account, and a trading account can have more than one customer.
  1. **CAT Customer ID (CCID)**

SEC Rule 613 defines two types of customers:

* The account holder(s) of the account at a registered broker-dealer originating the order.
* Any person from whom the broker-dealer is authorized to accept trading instructions for such account, if different from the account holder(s).

A unique CCID will be assigned to each customer and will allow customers to be consistently identified across broker-dealers within the Central Repository. Examples of customers that would have a CCID include an individual investor; financial advisor; institutions; third party money managers; any individual that has trading authorization (except an individual with trading authorization that is employed by an entity that is an account holder); and any entity that has trading authorization.

Industry members and Cat Reporting Agents submit customer information to the CAT Customer & Account Information System (CAIS) for assignment of a unique identifier for each customer to be used across all dealers and markets.

* 1. **Firm Designated ID (FDID)**

CAT requires that industry members assign a single FDID to **each** trading account that is unique across all vendors Company may use to report new orders to CAT and unique across time (with limited exceptions such as closed accounts). For example, if Company uses multiple vendors for reporting, each vendor must report activity from the same account using the same FDID. Trading accounts are represented in CAT by Company's FDID.

### 8.33.4 What to Report

Firms must report market transaction data (Reportable Events) to the CAT in a format(s) specified by CAT. These events cover the end-to-end lifecycle of a trade, including but not limited to, quotes, original receipts or originations of an order, modifications, cancellations, routing, receipts of a routed order execution (in whole or in part), and ultimately order allocations.

Eligible securities include NMS stocks, listed options, and over-the-counter (OTC) equity securities. Under the CAT NMS Plan, "eligible security" includes equities and options with the following definitions: (1) all NMS Securities, meaning "any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in Listed Options;" and (2) all OTC Equity Securities, meaning "any equity security, other than an NMS Security, subject to prompt last sale reporting rules of a registered national securities association and reported to one of such association's equity trade reporting facilities."

For eligible securities, the types of events that will need to be reported include:

* All proprietary orders, including market maker orders
* All street side representative orders (both agency and proprietary)
* Electronic listed quotes (NMS stocks) sent to an exchange or the Alternative Display Facility (ADF) (assumes exempted relief request for verbal quotes)
* Unlisted quotes (OTC Equity Securities) received by a broker-dealer operating an inter-dealer quotation system (*e.g.,* Global OTC, OTC Link)
* Unlisted quotes that meet the definition of bid or offer under the Plan sent by a broker-dealer to a quotation venue not operated by an SRO or broker-dealer
* "Simple Electronic Option Orders:" orders to buy or sell a single option that are not related to or dependent on any other transaction for pricing or timing of execution that are either received or routed electronically by an Industry Member CAT Reporter
* "Electronic Paired Option Orders:" electronic option orders that contain both the buy and sell side that is routed to another Industry Member or exchange for crossing and/or price improvement as a single transaction on an exchange. Further, the events related to Simple Electronic Option Orders subject to reporting in Phase 2b are limited to those events which involve electronic receipt of an order, or electronic routing of an order
* Electronic receipt of an order: the initial receipt of an order by an Industry Member in electronic form in standard format directly into an order handling or execution system
* Electronic routing of an order: the routing of an order via electronic medium in standard format from one Industry Member's order handling or execution system to an exchange or another Industry Member

### 8.33.5 Time Clocks

All time clocks (computer system or mechanical) used for recording date and time of orders must be synchronized and maintained within a specified tolerance of time maintained by the NIST atomic clock.

### 8.33.6 Reviews

Company will ensure the review of CAT information and reporting portal which will include:

* File status, and potential errors or repairs, statistics and compare to Company order and trade records to ensure all applicable trades are submitted to CAT;
* Maintain and update if applicable Firm Contact information;
* CAT announcements and any FAQs (use the FINRA CAT Help Desk if necessary at 888-696-3348 or [help@finracat.com](mailto:help@finracat.com));
* Clock synchronization on a random basis but no less than weekly and maintain a log of such reviews and complete the annual certification by March 15 of each year; and
* Designation of SAA and users.
* Periodic reviews of third-party reporting (including clearing firm) if applicable.

Said reviews will be conducted by Compliance and will also be noted in Company’s annual Internal Review Exam along with reviewing these procedures, auditing and testing, and any corrective action.

## 8.34 FINRA Rule 2124 – Net Transactions with Customers *(eff 12/14/09)*

Company may, at the request of a customer, confirm a transaction on a net basis. A net transaction is a principal transaction in which the market maker, after having received an order to buy or sell an equity security, buys or sells the security (from or to another dealer or another customer) and then sells to or buys from the customer at a different price.

Institutions that request net basis transactions will be provided with the Company's negative consent letter regarding the terms and conditions of such transactions. If the institution objects to the terms included in the letter, the Company will not trade on a net basis with that customer. As an alternative, the terms and conditions for handling the order on a net basis may be orally explained and oral consent obtained from the institutional customer. Oral consent must be noted on the order record.

Net trading with non-institutional customers requires **pre-trade** disclosure and written consent on an order-by-order basis. Orders received from another broker-dealer for their customer do not require disclosure and consent; these are obligations of the other broker-dealer.

If orders are received from a fiduciary for a non-institutional customer, the fiduciary's status determines whether there is an obligation to provide pre-trade disclosure and consent. For example, if the fiduciary is an investment adviser, the adviser is considered an institution and disclosure and consent are not required. If the fiduciary is an individual such as an attorney or an accountant acting on someone's behalf, the fiduciary is considered an individual and pre-trade disclosure and consent are required.

## 8.35 Extended Hours Trading

Company prohibits customers from engaging in extended hours trading and does not allow customers to open accounts online. In the event Company determines it will allow any extended hours trading in the future, customers would be furnished the appropriate risk disclosures pursuant to FINRA Rule 2265

## 8.36 FINRA Rule 5230 - Payments Involving Publications that Influence the Market Price of a Security *(eff 12/14/09)*

Company or Associated Persons shall not directly or indirectly, give, permit to be given, or offer to give, anything of value to any person for the purpose of influencing or rewarding the action of such person in connection with the publication or circulation in any electronic or other public media, including any investment service or similar publication, web site, newspaper, magazine or other periodical, radio, or television program of any matter that has, or is intended to have, an effect upon the market price of any security. These prohibitions shall not apply to compensation paid to a person in connection with the publication or circulation of:

(1) A communication that is clearly distinguishable as paid advertising;

(2) A communication that discloses the receipt of compensation and the amount thereof in accordance with Section 17(b) of the Securities Act; or

(3) a research report, as that term is defined in FINRA Rule 2241(a)(11).

## 8.37 Churning

Churning of a customer’s account is prohibited. The term “churning” has a number of elements including:

* Excessive transactions
* Intent to defraud which may be defined as the RR acting in the RR’s own interest contrary o the customer’s interest.

An account that is active does not necessarily denote churning. An account’s activity must be reviewed individually when reviewing for churning including the customer’s objectives and the customer’s control of the account.

## 8.38 Market Manipulation

Company and its Associated Persons may not engage in manipulative activity to artificially affect the price of a security including entering orders at successively higher price3s; creating or inducing a false or misleading appearance with respect to the market in a security; trading at the close to influence the price of a security; or participate (directly or indirectly) in the profits of a manipulative operation or knowingly manage or finance a manipulative operation. “Matched trades” where a person buys or sells a stock, with knowledge that a substantially offsetting transaction is going to be entered by someone, in order to mislead others about the extent of the activity in, or the market for, a given stock is a form of market manipulation.

## 8.39 Watch/Restricted Lists

The following policies and procedures shall govern the actions of all Registered Principals, Registered Representatives and other Associated Persons of the Company in the handling of private securities transactions involving securities issued by companies whose names appear on the Watch List and or Restricted Lists described herein. Securities transactions shall include but not be limited to corporate debt and equity securities, options, warrants, or any derivative products related thereto.

**The** **Watch** **List**

**A. Introduction**

The Watch List ("WL") is a confidential list of securities about whose issuers the Company may have received material confidential information, usually concerning a transaction or other event for which the Company has been engaged, or where the Company has been retained to advise an issuer or otherwise has determined that there is a reason to monitor trading activities in securities of said issuer.

The WL is ordinarily used to facilitate the monitoring of, without restricting, research and trading and other activities in those securities in order to monitor compliance with the Chinese Wall procedures set forth in the Company's Written Supervisory Procedures. In appropriate circumstances, however, the Compliance Department may intervene to break trades, freeze or liquidate securities positions, require "passive" trading activity, halt the dissemination of research, or impose other restrictions on the activities of the Company or associated persons in connection with securities on the WL.

The contents of the WL and any restrictions that result from them are confidential. No one may engage in discussions regarding the contents of the WL with persons inside the Company accept in accordance with the Company's Chinese Wall procedures. No one may engage in a discussion with anyone outside the Company concerning the contents of the WL.

Distribution of the WL is very limited. It is available only to persons specified by Morris Monroe.

**B. Placement of Securities on and off the Watch List**.

A security will ordinarily be placed on the WL when the Company has received material confidential information concerning that security or its issuer in the course of the Company's involvement in a possible transaction or other event that has not been publicly announced or when the Company has been engaged to advise the issuer or a related party with respect to a market-sensitive transaction. Ordinarily, when the Company signs a confidentiality letter or executes an engagement letter, any relevant security of the issuer will be placed on the WL.

Decisions to place a security on the WL involve questions of judgment and not merely the application of arbitrary or mechanical standards.

It is the responsibility of personnel in the area whose activities call for the addition of a security to or its deletion from the WL to request the addition or deletion promptly. Subject to the requirement to consult with and obtain the agreement of Morris Monroe, requests to add securities to or delete them from the WL may be by any person.

It is essential that associated persons engaged in advisory activities be alert to circumstances that might require a security to be placed on or deleted from the WL. When in doubt, the supervisor of the associated person should be consulted.

A security ordinarily will be removed from the WL when Morris Monroe determines that it is no longer necessary to monitor research, sales and trading activities with respect to the security or its issuer.

**C. Monitoring**

When a security has been placed on the WL or Restricted List (discussed below), the Company conducts a retroactive review of transactions, including transactions in personal accounts, in the Company's proprietary accounts and in customer accounts that involve the security.

The Company conducts reviews of Associated Person transactions, the Company's proprietary transactions (currently does not conduct proprietary transactions) and customer transactions involving securities on the WL which is documented by the Compliance Department.

When a security has been placed on the WL, the release of research with respect to the security will be reviewed prior to release by the Compliance Department.

Trading logs maintained by the Compliance Department will contain the date of placement and removal of a security from the WL, and any inquiries or investigations into suspicious trading activity in a security on the WL.

**The** **Restricted** **List**

**A. Introduction**

To comply with securities laws, avoid the appearance of impropriety and supplement the Chinese Wall, the Company, if applicable, will maintain a Restricted List ("RL"). The RL is a list of securities which are subject to restrictions in handling customer orders, trading for proprietary accounts and for personal and related accounts, and other activities.

A security ordinarily will not be placed on the RL until after a relevant transaction (and/or the Company's involvement in the relevant transaction) has been publicly announced or has otherwise become a matter of public record.

**B. Use of the Restricted List**

The RL is solely for the internal use of the Company. No one may engage in discussions regarding whether a security is or is not on the RL with persons outside the Company without specific clearance from Morris Monroe.

The RL, if applicable, will be distributed periodically (electronically and/or in written form) to Associated Persons.

**C. Prohibitions Relating to Restricted List Securities**

The placement of a security on the RL generally restricts trading in the specific classes of the security unless an exception is granted by Morris Monroe. This means that, depending on the reason for placing a security on the RL, absent an exception, the following activities in RL securities may be prohibited: proprietary trading, transactions in customer accounts, transactions for discretionary accounts, the recommendation of transactions, and trading in personal or certain related accounts. Once a security is placed on the RL, the release of research with respect to the security will be reviewed prior to release by Morris Monroe or the Compliance Department to determine whether it may be released.

RL prohibitions generally apply to all securities which are convertible, exchangeable or exercisable into a security that is on the RL.

**D. Placement of Securities on and off the Restricted List**

A security may be placed on the RL for a number of reasons. Therefore, no inferences should be drawn concerning a company or its securities due to its inclusion on the RL.

1. Reinforcing the Chinese Wall. When one or more areas of the Company may be in possession of material confidential information, the Company may restrict sales and trading in order to avoid the possible appearances of misusing that information;
2. Complying with Rule 10b-6, 10b-7, 10b-9 or 10b-13. When the Company is participating in a distribution of securities or is involved as a Dealer or Bidder in connection with a tender offer, SEC Rules impose certain restrictions on the Company's activities with respect to certain classes of securities;
3. Research Reports. Should the Company ever issue significant new or significantly changed research relating to such a security, that security may be placed on the RL until the greater of 24 hours or one full business day following the release of the research;
4. Other purposes. Trading, sales or research activities in the securities of a company may be restricted to meet other compliance, business or regulatory objectives, such as those imposed by Rule 144, Rule 144A, Rule 145, and shelf registration requirements.

Securities may be placed on the RL at the direction of Morris Monroe. It is the responsibility of Morris Monroe or Compliance to add, at the appropriate time, all appropriate securities to the RL.

It is essential that associated persons engaged in investment banking or other advisory activities be alert to circumstances that might require the placement of a security on or off the RL. When in doubt, the supervisor should be consulted.

Generally, a security will be removed by the Compliance Department from the RL at the request of Morris Monroe. The security can be removed from the RL when the Company's involvement in the transaction relating to the security has ended, when the transaction has been concluded or when it is otherwise determined that it is no longer necessary to restrict activities in the security.

**E. Exceptions to the Restricted List**

The Compliance Department may grant exceptions to RL prohibitions in appropriate circumstances. Any request for such an exception may be granted only by Morris Monroe, and the exception must be granted before any otherwise prohibited activity is affected.

## 8.40 Insider Information and Chinese Wall Procedures

All Associated Persons shall be assigned to a qualified supervisor of the Company (Exhibit "A"). It shall be the policy of the Company to require all registered representatives to provide the Company with a list of all affiliations either directly or indirectly with any publicly registered companies. Such listing is to include the name of the company, the nature of the affiliation, the percentage (%) ownership (either direct or indirect), and the date in which the affiliation first existed. It shall be the policy of the Company to request duplicate statements and confirmations from other SEC registered broker/dealer for each registered representative of the Company. Such duplicate account statements shall be reviewed, and cross referenced periodically by Morris Monroe, his designee, or the designated principal, with regards to trading activities in public corporations listed on the individual's disclosure list.

During a meeting with Morris Monroe, Laura Hendricks, or designated principal (“principal”), that is to occur prior to an Associated Person being allowed to engage in a securities business, the principal shall review insider trading with the new employee. The review shall be documented by the Associated Person’s signature on the “Insider Trading and Chinese Wall Procedures Acknowledgment” form. At the time of employment and annually thereafter, during the annual compliance meeting, all Associated Persons and registered representatives will be required to sign the “Insider Trading and Chinese Wall Procedures Acknowledgment” form indicating that they have read and understand the procedures. Morris Monroe or Laura Hendricks will review the Acknowledgments received at the completion of the compliance meeting and place a copy of the Acknowledgment in each individual’s personnel file.

All Associated Persons of the Company are expressly prohibited from misusing "inside" or nonpublic "proprietary" information as such terms are defined herein for purposes of this section. No Associated Person may purchase or sell a security or cause the purchase or sale of a security for any account while in possession of inside information relating to that security. Further, no Associated Person may recommend or solicit the purchase or sale of any security while in possession of inside information relating to that security. No Associated Person may disclose inside information to others, except disclosures made in accordance with the Company's policies and procedures to other Company personnel or persons outside the Company (such as the Company's outside legal counsel or the client's attorneys or accountants) who have a valid business reason for receiving such information. Any person engaged in research activities and or corporate finance activities who may become privy to insider information is restricted from acting upon such information and should bring such information to the direct attention of Morris Monroe.

No Associated Person may purchase or sell or cause the purchase or sale of a security for an employee or employee-related or proprietary account of the Company before the investing public has had time to receive and react to material research information, opinions, or recommendations released by the Company relating to such security. Generally, the security will be placed on the Restricted List from the time of release of the material research until public dissemination is judged by Morris Monroe to be complete - generally within 48 hours of release. No Associated Person may purchase or sell or cause the purchase or sale of a security for an employee or employee-related account or a proprietary account of the Company or an account over which an employee exercises investment discretion, while in possession of proprietary information concerning a contemplated block transaction in the security or for a customer account when such customer has been provided such information by any Associated Person. A copy of the Restricted List shall be made available to all Associated Persons of the Company. Further any transactions which occur, in an Employee Account or Employee Related Account, which the Company feels may be inappropriate and or otherwise questionable will be investigated by Morris Monroe and inquiries will be made into the circumstances surrounding such transaction.

Associated Persons engaged in research activities should not discuss unreleased information, opinions, recommendations, or research analysis in progress with Company Associated Persons engaged in trading or sales activities, other than Morris Monroe, or any person within or outside the Company who does not have a valid business need to know the information.

Generally, research persons should not submit unreleased research information, opinions, recommendations, or analyses to associated persons engaged in investment banking activities for prior approval. All such materials should be forwarded to Morris Monroe for review, approval and dissemination.

**Definitions:**

**Inside Information** - Certain information received by the Company in the course of its activities may be "inside" information within the meaning of federal securities laws which prohibit the fraudulent misuse of such information in connection with the purchase or sale of securities. For purposes of the Company's policies and procedures, "inside" information includes "material, nonpublic" information provided by the Company by an external source such as a client, prospective client, or other third party with the expectation that the Company will keep the information confidential and use it only for the benefit of the client or prospective client.

Under the Company's policies and procedures, certain "tips" may be treated as inside information. "Tips" are generally material nonpublic information received from persons outside of a client relationship. For example, during the course of gathering information from which to prepare their research reports, research analysts may be provided material, nonpublic information by corporate officials. Associated persons of the Company who receive information in such circumstances should check with Morris Monroe, who then may contact legal counsel for the Company, before using or disclosing the information.

**Proprietary Information** - Certain information possessed by associated persons of the Company is proprietary to the Company. Such information may include unpublished research information, opinions, and recommendations; the Company's security positions; the Company's intentions with respect to trading in its proprietary accounts; the Company's investment or trading strategies or decisions; pending or contemplated customer orders; unpublished analyses of companies, industries or economic forecasts; and analyses done by research personnel of companies that are potential acquirers of other companies or their assets or companies that are possible candidates for acquisition, merger, or sale of assets.

**Material Information** - Information is material if there is a substantial likelihood that a reasonable investor would consider the information important in deciding whether to purchase, hold or sell a security. In other words, there must be a substantial likelihood that disclosure of the information would have been viewed by a reasonable investor as having significantly altered the total mix of information made available. Information may be material even if it relates to speculative or contingent events.

Material information may include information about: dividend increases or decreases; earnings or earnings estimates; changes in previously released earnings or earnings estimates; write-downs of assets; additions to reserves for bad debts; expansion or curtailment of operations; increases or declines in orders' new products or discoveries; borrowing; litigation; liquidity problems; management developments; contests for corporate control; public offerings of securities; changes of ratings of debt securities; proposed transactions such as refinancing, tender offers, recapitalizations, leveraged buy-outs, acquisitions, mergers, restructurings or purchases or sales of assets; advance knowledge of unannounced government actions that is likely to have an effect on the market; knowledge of unannounced events that will affect one or more companies in a significant way; or knowledge of unannounced inventions.

**Nonpublic Information** - Unless information has been publicly disclosed, such as by means of a press release, in the Dow Jones or Reuters press services, in a newspaper, in a public filing made with a regulatory agency, in materials sent to shareholders or potential investors such as a proxy statement or prospectus, or in materials available from public disclosure services, Company associated persons should assume that all information obtained in the course of their employment by the Company should be considered nonpublic information.

**Securities** - The term securities includes all forms of stock, notes, bonds, debentures, and other evidence of indebtedness, investment contracts, futures and all securities derivative of such securities (i.e. options, warrants, stock index futures).

**Restricted List** - The Restricted List is composed of companies whose securities are subject to research, sales or trading activity prohibitions.

**Employee** - includes all officers, directors and employees of the Company.

**Employee Account** - includes any personal account of an employee, any joint account in which the employee has an interest, any account in which the employee is a tenant in common with another person; and any other account over which the employee has investment discretion or may otherwise exercise control or in which the employee has a direct or indirect beneficial or financial interest, including the accounts of entities controlled directly or indirectly by the employee, trusts for the benefit of the employee or for which the employee acts as trustee, executor or custodian.

**Employee-Related Account** - includes the following accounts if maintained by the Company; the accounts of an employee's family members including but not limited to, an employee's spouse, children, grandchildren, parents, grandparents, siblings, and in-laws; the account of any person who resides with or receives support from the employee; and any account for the benefit of any member of an employee's family other than an account defined by these policies and procedures as an employee account.

Morris Monroe will be responsible for updating employees on new or revised regulations pertaining to insider trading as they are issued. He will distribute an addendum to the written supervisory procedures to all employees. A copy of the addendum will be placed in the file with a signed copy of the distribution memorandum.

### 8.40.1 Chinese Wall Procedures

All Associated Persons should take the following steps to safeguard the confidentiality of inside information:

a) Do not discuss confidential information in public places such as elevators, hallways, restrooms or at social gatherings;

b) To the extent practicable, limit access to the Company's offices where confidential information could be observed or overheard to Company associated persons with a business need for being in the area;

c) Avoid using speakerphones in areas where unauthorized persons may overhear conversations;

d) Where appropriate, maintain the confidentiality of client identities by using code names or numbers for confidential projects;

e) Exercise care to avoid placing documents containing confidential information in areas where they may be read by unauthorized persons and store such documents in secure locations when they are not in use;

f) Destroy copies of confidential documents no longer needed for a project or not otherwise required to be maintained under federal securities laws;

g) Associated Persons engaging in meetings with corporate officers of companies for the purpose of gathering information for research reports or follow up meetings with companies shall maintain written notes of said meetings including but not limited to: (1) the names of Company representatives and of corporate officers of the subject company in attendance; (2) the time, date and location of the meeting; (3) the purpose of the meeting; (4) notes of conversation between the corporate officers and Company representatives in attendance; (5) copies of any handouts or other written materials given to Company representatives in attendance; and

h) The Company shall maintain a file containing a list of all research reports, statistical sheets and other written materials issued within the previous 12-month period to customers of the Company. Copies of such materials shall also be maintained in the files of the Company.

### 8.40.2 Specific Trading Limitations

a) No purchase or sale of securities may be made for an employee or employee-related account if the transaction is prohibited by the Restricted List. Employees should check whether a security is on the Restricted List before making a purchase or sale for an employee or employee-related account.

b) With respect to securities on the Company's recommended list, the following transactions may not be made for an employee or employee-related account: short sales or purchases of put options for any purpose within the first three (3) days after the related company or security is placed on the recommended list, and thereafter, only to hedge a position.

c) No purchases or sales of securities should be made for an employee or employee-related account based on information learned from customers or derived from customer accounts.

d) No purchases may be made for an employee or employee- related account of securities in a "hot issue" with respect to which the Company is acting as an underwriter. Regardless of whether an offering would be deemed to be a "hot issue" by FINRA or SEC standards, no securities may be allocated to any employee or employee-related account so long as there remain unfilled orders of Company customers.

e) No purchase or sale of securities may be made for an employee or employee-related account if the employee knows or has reason to know that a security is the subject of un-disseminated Company material research.

Orders are reviewed by both Trading Department and Compliance. Outside securities accounts are reviewed at least quarterly. Morris Monroe has overall responsibility for developing and maintaining policies and procedures for handling inside and proprietary information. Morris Monroe shall be responsible for the implementation of these policies and procedures.

### 8.40.3 Possession of Inside Information

It is not illegal to learn inside information. The Company may learn material non-public information from its customers and is permitted to use that information in a lawful manner to advise and assist them. It is, however, illegal to trade on such information or to pass it on to others who have no legitimate business reason for receiving such information.

If any Associated Persons believe they have learned inside information, other than in the ordinary course of business (such as investment bankers who learn inside information when working on an engagement), contact Compliance immediately so that the insider trading issues may be addressed and preserve the integrity of the Company's activities. Do not trade on the information or discuss the possible inside information with any other person at the Company. Advise Compliance immediately if a breach of these policies or of a leak of inside information occurs.

### 8.40.4 Review and Supervision

Compliance will implement the following procedures to ensure Company’s compliance with the laws and regulations:

1. Review trades against any restricted or watch list to identify any potential breaches which will be evidenced by reviewers’ initials on daily blotters;
2. Investigate any reported or discovered breaches and take any corrective action, including:

* Contact with affected personnel;
* Consultation with inside or outside counsel;
* Refer to regulators any applicable information;
* Administer any necessary disciplinary action;
* Document the investigation in a report to be maintained as part of Company’s books and records

3. Provide initial training of regulations and Company’s policies for newly hired Associated Persons and annually thereafter. Training will be evidenced by the Insider Trading Acknowledgment Form.

## 8.41 New Product Procedures

Company will utilize the following guidelines when offering new products. Morris Monroe will be responsible for reviewing and approving new products and the development of these procedures designed to avoid and detect conflicts and meet any regulatory requirements.

Once the determination has been made that a product constitutes a new product to the Company or its customers (by examining criteria such as whether it is offered to a new class of investors, offered by representatives new to the product, involves material modifications to an existing product, involves material operational or sales practice changes, or involves any conflicts) a review process will be conducted to determine whether a new product will be offered for sale.

At a minimum, the following questions will be addressed and answered as part of the review process:

1. Who is the target investor – general or limited (if limited, what are the limitations)?
2. Is this product only offered by the Company or is it available from other competitors?
3. Which representatives will offer the product and what license is required?
4. Are there any particular conditions or limitations for the product? (only accredited or have a particular objective or risk tolerance, sophistication level, set percentage of net wealth limit, etc.).
5. What is the products investment objective and what other products offer the same objective with similar or less risk?
6. What are the features of the product (benefits and risks – do the risks outweigh the benefits)?
7. How liquid is the product and is there a secondary market?
8. Are there any market or performance factors that determine the product’s return?
9. What are the fees, sales charges, expenses, legal and tax implications, etc. to the investor and how do they compare to other products offered by the Company or competitors?
10. What is the compensation to representatives and does the compensation comply with the "best interests" requirement of the Fiduciary Rule?
11. Does the product/service fall under the BIC or another exemption (when applicable) and/or should any notification be made to RRs and supervisors regarding requirements specific to the product/service (BIC, *etc.*)?
12. Are there any conflicts of interest arising from the sale of the product between the customer and representative or the Company? If any exist, how will they be addressed and/or disclosed to the potential investor?
13. What is the complexity of the product and how does that affect both the potential investor’s understanding, best interest, and/or training of the product?
14. How will the Company and its representatives market the new product?
15. Is there a specific time period for the product or will it be offered continuously? If continuous, what periodic review or monitoring must be conducted if the product is approved?
16. Is there a Company Product Disclosure Form or a Product Sponsor disclosure form that will be provided to the potential investor to disclose risks, charges, fees, etc.?
17. What product or sales material will be provided?
18. Are there any other individuals assessing the new product’s features and complexity and what are their qualifications?
19. Will there be any initial or ongoing training for representatives, back office, principals, etc. (when and how)?
20. Will the Company current systems support the new product, or will new ones have to be created and initiated?
21. Are there any conditions that must exist for the continuation of the product?
22. What are the regulatory requirements or implications surrounding the new product?
23. Are there any other issues that need to be addressed that may be specific to this new product?

The review conducted by the Company (and the subsequent outcome) will be maintained as part of its books and records for as long as the new product is offered and then for a period of three years thereafter.

In addition to the above review, any new product offered will have a section added to these Written Supervisory Procedures for representatives and other employees to follow applicable procedures for offering the product.

## 8.42 Options

Company is currently not offering options; however, will outline requirements when offering options in the future to customers. Key requirements will include the following:

* Appoint an Options Principal to supervise options activity;
* RRs and supervisors must be registered to sell and supervise options;
* Customers must submit an option agreement, and accounts must be approved for options trading levels;
* Writing uncovered options requires a separate disclosure and approval;
* Customers will be provided with a standard options disclosure document when option trading is approved;
* Customers are subject to position limits and methods of exercise disclosed in the agreement;
* Options communications require inclusion of the special risks associated with options; and
* Compliance would have to approve any discretionary accounts that would trade options.

## 8.43 Annual Review

The Company shall review on an annual basis these Trading Policies and Procedures to ensure that they are adequate to prevent any account from being systematically disadvantaged as a result of any trade practices.

# 9. COMMUNICATIONS WITH THE PUBLIC

## 9.1 Introduction

These procedures provide Company guidance and policies related to all communications with the public including correspondence, retail communication and institutional communication. It is the policy of the Company that all communications with the public shall be based on principles of fair dealing and good faith and shall provide a sound basis for evaluating the merits of any security or type of security, industry discussed, or service offered by the Company. No material fact or qualification may be omitted if the omission, in light of the context in which the material is presented, would cause the communication to be misleading. Exaggerated, unwarranted or misleading statements or claims shall not be used in any public communication made by the Company. Furthermore, the Company shall not, directly or indirectly, publish, circulate, or distribute any public communication that the Company knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

In general,

* All communications must be truthful and balanced.
* Communications (incoming and outgoing) are subject to review by the Company. Do not expect confidentiality for any communications that are received by you or that you send from the Company.
* Records of communications (incoming and outgoing) are retained by the Company and are subject to review by regulators and subpoena in civil actions.
* Public communications must be sent or transmitted only through Firm-sponsored facilities or systems. Written and electronic communications must be sent through channels that permit review by the supervisor.

Communications with the public must not contain promises of specific results, exaggerated or unwarranted claims or unwarranted superlatives, opinions for which there is no reasonable basis, or forecasts of future events which are unwarranted, or which are not clearly labeled as forecasts. In testimonials concerning the quality of investment advice, the following points must be clearly stated in the communication:

1. The testimonial may not be representative of the experience of other clients;

2. The testimonial is not indicative of future performance or success;

3. If more than a nominal sum is paid, the fact that it is a paid testimonial must be indicated; and

4. If the testimonial concerns a technical aspect of investing, the person making the testimonial must have the knowledge and experience to form a valid opinion.

## 9.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principal |
| **Statutes** | * FINRA Rule 2210 – Communication with the Public * FINRA Rules 2212-2216 * FINRA Rule 2266 – SIPC information |
| **Frequency** | * As required |
| **Actions** | * Review applicable communications * Make revisions as needed * Provide requestor with approved copy or notify of disapproval * Review of Emails * Any applicable training |
| **Records** | * Copies of reviewed materials, including the reviewer's initials, are retained in a file * Archived Emails * Applicable compliance meetings and attendance |

## 9.3 Rule 2210 - Communications with the Public *(eff 02/04/13)*

### 9.3.1 Definitions

(1) “Communications” consist of correspondence, retail communications and institutional communications.

(2) “Correspondence” means any written (including electronic) communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period.

(3) “Institutional Communication” means any written (including electronic) communication that is distributed or made available only to institutional investors but does not include a member's internal communications.

(4) “Institutional Investor” means any:

(A) Person described in [Rule 4512](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=9958)(c), regardless of whether the person has an account with a member;

(B) Governmental entity or subdivision thereof;

(C) Employee benefit plan, or multiple employee benefit plans offered to employees of the same employer, that meet the requirements of Section 403(b) or Section 457 of the Internal Revenue Code and in the aggregate have at least 100 participants, but does not include any participant of such plans;

(D) Qualified plan, as defined in Section 3(a)(12)(C) of the Exchange Act, or multiple qualified plans offered to employees of the same employer, that in the aggregate have at least 100 participants, but does not include any participant of such plans;

(E) Member or registered person of such a member; and

(F) Person acting solely on behalf of any such institutional investor.

No member may treat a communication as having been distributed to an institutional investor if the member has reason to believe that the communication or any excerpt thereof will be forwarded or made available to any retail investor.

(5) “Retail Communication” means any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period.

(6) “Retail Investor” means any person other than an institutional investor, regardless of whether the person has an account with a member.

### 9.3.2 Categories of Communication

Under the new rules, there are three main categories or communication with the public (verses the former six):

1. Institutional Communication;
2. Retail Communication; and
3. Correspondence.

## 9.4 Institutional Communication

Rule 2210(a)(4) specifies that no member may treat a communication as having been distributed to an institutional investor if the member has reason to believe that the communication or any excerpt thereof will be forwarded or made available to any retail investor or the “reason to believe” standard.

The standard does not impose an affirmative obligation on firms to inquire whether an institutional communication will be forwarded to retail investors every time such a communication is distributed. However, if Company becomes aware of any institutional recipient is forwarding its material to retail investors, Company will treat such material as “retail communications” until the practice is corrected.

## 9.5 Retail Communications

Communications that formerly qualified as “Advertisements” or “Sales Literature,” generally fall under the definition of “Retail Communication.” In addition, any communication of an independently prepared reprint made available to 25 or more retail investors within a 30 calendar-day period would also fall under the category of “Retail Communication.”

## 9.6 Correspondence

As revised, FINRA Rule 2210(a)(2) defines “correspondence” as “any written (including electronic) communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period.” Thus, the current distinction between existing retail customers and prospective retail customers is eliminated. Instead, if Company distributes or makes available a written communication to 25 or fewer retail investors within a 30 calendar-day period, the communication is considered correspondence. If Company distributes or makes available a written (including electronic) communication to more than 25 retail investors (even if they are existing retail customers) within a 30 calendar-day period, it is considered a retail communication. Thus, for example, a seminar handout provided to 25 or fewer retail investors within a 30 calendar-day period would be considered correspondence under the new definition.

### 9.6.1 Incoming Correspondence

Morris Monroe shall designate a qualified individual with sufficient training the responsibility for opening all incoming mail immediately upon receipt to assure that any securities related business and checks are properly handled and promptly processed and that Morris Monroe or Laura Hendricks are notified of any customer complaints or regulatory inquiries. These duties will be performed by the Compliance Department designees and the Principal and/or his designees in the branch offices. Incoming correspondence will be date stamped when received, initialed for review by Morris Monroe, the branch office Principal, or their Designees, and maintained in the current year’s Incoming Correspondence notebook (to be retained for a period of three years) or scanned as a pdf for backup and evidence of approval (for ease of offsite approval). Originals will be maintained as well.

**Customer Complaints**

"Complaint" is defined as any written statement by a customer or a person acting on behalf of a customer alleging a grievance involving the activities of a person under the broker-dealer's control in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer. Each office where Company regularly conducts business (handles funds or securities, solicits or accepts customer orders) will maintain a separate file of all written customer complaints. Records of options complaints will be maintained in a separate file (or are separately identifiable) in Compliance and in the office that is the subject of the complaint.

#### Regulatory Communication

All regulatory inquiries whether written or oral are to be directed to the attention of Morris Monroe, for response. Further, all responses and other correspondence will be handled by Morris Monroe, or his designee, or legal counsel for the Company, and the representative will make no statements on behalf of the Company, to any person in a regulatory agency, unless specifically authorized to do so by the Company.

#### Processing Incoming Mail

1. Open all mail related to securities and investment information, stamp with date received and distribute accordingly including faxes (may scan any into pdf Correspondence folder for backup copy and approval.) If customer related, add scanned copy into customer record in WinOps. Emails are archived.

2. Check for customer complaints (make copy for Morris Monroe and Laura Hendricks, the registered representatives, and customer complaint files and in customer's account file).

1. Customer checks to be forwarded to back office to be deposited same day, (if before 3:00 pm) or next day if after 3:00 pm.

4. Correspondence from a regulatory agency is to be copied and directed immediately to Morris Monroe.

1. **Hold Mail**: Under revised **IM-3110(i),** the Company, upon a customer’s written instructions, may hold mail for a customer:

* Who will not be at his or her usual address for no longer than two months if the customer is on vacation or traveling, or three months if the customer is going abroad. Mail held for any longer period must be justified by the customer in writing for an acceptable reason (*e.g.,* military, safety, or security concerns). Convenience is not an acceptable reason to hold mail longer.
* Any requests received from customers to hold their mail should be referred to Compliance for review. Such requests should be in writing and renewed annually.
* All mail will be held by Compliance and sent to the customer at the expiration of hold mail instructions.
* If Company is holding mail for a customer, Company must be able to communicate with the customer in a timely manner to provide important account information (*e.g.* privacy notices, SIPC information notices), as necessary.
* Customers will be notified in writing of alternative methods for the customer to view/monitor account activity such as email or access through the custodian’s website. Such notice may originate from either the Company or the custodian. The customer will be requested to acknowledge receipt of this notice.
* Any written instructions will be maintained in the customer file or WinOps and also may be recorded in the CRM with a follow up action for two months in the future (or three months if applicable) to contact the customer and terminate the holding period. Morris Monroe or his designee will ensure that once the time period has expired, all mail is again properly forwarded to the customer. A notification will be forwarded to HTS to resume delivery to the customer and maintain a copy of the notice in the customer file.
* In addition, Compliance will maintain a log to record the transmittal of held mail including when it is sent, to whom, and where sent as well as the customer's written instructions to hold mail and notice to the customer of alternatives and the customer's acknowledgment of receipt.

1. LOA’s to transfer funds or securities will be processed by the trading department and any instructions maintained in a central location.
2. Any bills, invoices, forwarded to Accounting for processing.

### 9.6.2 Outgoing Correspondence

All correspondence relating to the solicitation or execution of securities shall be approved by Morris Monroe or another qualified supervisor. Examples of letters involving solicitation would include, but not be limited to, suggesting specific stocks or industries or those telling a potential customer of the benefits of the Company. In addition, pursuant to amended Rule 2211, effective December 1, 2006, a registered principal must approve correspondence sent to 25 or more existing retail customers within any 30 calendar-day period if the correspondence makes any financial or investment recommendation or otherwise promotes a product or service of the Company. Approval of Morris Monroe or another qualified supervisor will be evidenced by initialing the correspondence document. A centralized file will be maintained for all outgoing correspondence (which can include a pdf file folder for backup and ease of approval) to customers pertaining to solicitation or execution of a transaction. Copies of such letters will be maintained for a period of three (3) years.

#### Processing Outgoing Mail

1. Must be received by 4:30 PM CST in back office.

2. Make sure date is correct on postage machine. Weigh all letters and put correct postage in.

3. Stamp with machine.

Drop in mailbox by 4:45PM CST.

1. Sales and prospecting letters must be approved by compliance prior to sending.
2. May scan as a pdf into Correspondence folder for backup copy and for review purposes. If customer related, scan a copy into WinOps. Emails are archived.

## 9.7 Approval, Review, and Recordkeeping

### 9.7.1 Retail Communications

FINRA Rules require an appropriately qualified registered principal of the Company to approve each retail communication before the earlier of its use or filing with FINRA. These communications include: (i) any retail communication that is excepted from the definition of “research report” pursuant to FINRA Rule 2241, communication that is posted on an online interactive electronic forum; and (iii) any retail communication that does not make any financial or investment recommendation or otherwise promote a product or service of the Company.

**Exceptions for Pre-Approval**:

A communication, if, at the time that a firm intends to publish or distribute it: (i) another firm has filed it with FINRA and has received a letter from FINRA stating that it appears to be consistent with applicable standards; and (ii) Company using the communication in reliance on this exception has not materially altered it and will not use it in a manner that is inconsistent with the conditions of the Advertising Regulation Department’s letter.

### 9.7.2 Correspondence and Institutional Communication

Correspondence does not require pre-approval. Any institutional communication will be pre-approved by a principal.

### 9.7.3 Inter-office Communications

Any inter-office communications may be subject to regulatory review, and therefore must comply with good business practice as well as Company's policies on communications and securities rules/laws. Inter-office memos and other communications are subject to review and retention requirements.

### 9.7.4 Reviewing on a Risk Basis

Supervisors, or someone qualified and appointed by the department supervisor, may review written outgoing correspondence on a risk basis using the guidelines that follow, or, review all outgoing correspondence prior to sending.

Sampling guidelines include the following. "Pre-review" refers to review and approval of written correspondence **before** it is sent. Correspondence subject to "post-review" may be reviewed after sending. All RRs are subject to review of at least some of their correspondence on a regular basis. Sampling is permitted for the following type(s) of outgoing correspondence:

* Written (hard copy) correspondence
* E-mails
* Faxes

1. Pre-review:
   * All correspondence for any RR with a history of complaints/discipline that necessitates heightened supervision (Compliance will notify supervisors of RRs subject to heightened supervision)
   * All correspondence that includes high-risk or other special products (e.g. options, CMOs, etc.)
2. Post-review:
   * At least 5% of other correspondence
3. Refer to the section *Content Guidelines* that follows for guidance on acceptable content.
4. For correspondence that includes a recommendation, determine that the information presented balances the benefits and risks of the recommendation and, if the subject security is high-risk, determine the recommendation is appropriate for the customer by conferring with the RR and/or reviewing new account information
5. Emails are reviewed on a random sampling basis, typically at least once a week, and generally sorted by Keyword Risk Level, with the highest numbers first down to lowest numbers. That sampling is then reviewed on a random sampling basis.
6. Content should be reviewed to detect and identify potential customer complaints.

## 9.8 Recordkeeping Requirements

FINRA Rule 2210(b)(4)(A) specifies that such records must include:

* A copy of the communication and the dates of first and (if applicable) last use;
* The name of any registered principal who approved the communication and the date that approval was given;
* In the case of a retail communication or institutional communication that is not approved prior to first use by a registered principal, the name of the person who prepared or distributed the communication;
* Information concerning the source of any statistical table, chart, graph or other illustration used in the communication; and
* For retail communications that rely on the exception under paragraph (b)(1)(C) of the Rule, the name of the firm that filed the retail communication with FINRA and a copy of the Advertising Regulation Department’s review letter.

Company shall maintain a file in a central location for securities related incoming and outgoing correspondence.

## 9.9 FINRA Filing Requirements and Review Procedures

Retail communications that must be filed with FINRA are charted below and outlines those requirements and the corresponding rule. In addition:

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

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

|  |  |  |
| --- | --- | --- |
| **Retail Communication Content Requiring Filing** | **When** | **FINRA Rule** |
| New member firms only: certain broadly disseminated retail communications such as generally accessible websites, print media communications, and TV and radio commercials. Free writing prospectuses are also included, other than those exempt from filing with the SEC. The rule also excludes research reports concerning only securities listed on a national securities exchange [other than those that must be filed under Section 24(b) of the Investment Company Act of 1940] | One-year requirement to file at least 10 business days prior to use starting on the date a firm's membership with FINRA becomes effective, per the CRD. Free writing prospectuses may be filed within 10 business days of first use. | **2210(c)(1)(A)** |
| Investment company communications that promote a specific registered investment company or family of registered investment companies. (Generic investment company communications are not required to be filed.) | Within 10 business days of first use or publication | **2210(c)(30)(A)** |
| Investment company using rankings or performance comparisons | 10 business days prior to first use or publication | **2210(c)(2)(A)  2212  2214** |
| Security futures (with certain exceptions) | 10 business days prior to first use or publication | **2210(c)(2)(B)  2215** |
| Bond mutual funds that include volatility ratings | 10 business days prior to first use or publication | **2210(c)(2)(A)  2213** |
| Options communications used prior to the delivery of the Options Disclosure Document | 10 business days prior to first use or publication | **2220(c)** |
| Public direct participation programs | Within 10 business days of first use | **2210(c)(3)(B)** |
| Templates for written reports produced by or concerning an investment analysis tool  *(Retail communications based on templates previously filed with FINRA where the only changes are to update statistical or other non-narrative information do not require re-filing. Also updated non-predictive narrative descriptions of market events during the period covered by the communication and factual descriptions of portfolio changes without having to re-file the template as well as updated information from a registered investment company's regulatory documents filed with the SEC. Filing exclusion includes updates supplied by third-party data providers if its information is from SEC filings; Company should obtain assurances from the data provider regarding the quality of the data and consistency with SEC source data.)* | No filing requirement; must provide access to investment analysis tools upon request | **2210** |
| Registered CMOs | Within 10 business days of first use or publication | **2210(c)(3)(C)  2216** |
| Registered securities that are derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance or a foreign currency | Within 10 business days of first use or publication | **2210(c)(3)(D)** |
| Television or video where Company has filed with FINRA a draft version of a "story board" | Within 10 business days of first use or broadcast | **2210(c)(4)** |
| Certain 529 Plans communications offering registered investment company products | Within 10 business days of first use or publication | **2210(c)(2)(A)** |
| Certain broker-prepared widely disseminated free-writing prospectuses that are required to be filed with the SEC under Securities Act 433(d)(1)(ii) [Excludes those exempt from filing with the SEC] | Within 10 business days of first use or publication | **Regulatory Notice 10-52** |

**Exclusions**:

FINRA Rule 2210(c)(7)(C) excludes:

* Retail communications that do not make any financial or investment recommendation or otherwise promote a product or service of the Company;
* Communications that do no more than identify a national securities exchange symbol of a firm or identify a security for which a firm is a registered market maker or that do no more than identify a firm or offer a specific security at a stated price;
* Certain “tombstone” advertisements governed by Securities Act Rule 134;
* Press releases that are made available only to members of the media;
* Retail communications of reprints of independently prepared articles or reports provided that:

(i) The publisher is not an affiliate of the member using the reprint or any underwriter or issuer of a security mentioned in the reprint that the member is promoting;

(ii) Neither the member using the reprint, nor any underwriter or issuer of a security mentioned in the reprint has commissioned the reprinted article or report; and

(iii)The member using the reprint has not materially altered its contents except as necessary to make the reprint consistent with applicable regulatory standards or to correct factual errors.

* Correspondence and institutional communications;
* Communications that refer to types of investments solely as part of a listing of products or services offered by the Company;
* Retail communications that are posted on online interactive electronic forums, such as an electronic bulletin board or an interactive forum that is contained on a social media website.

### 9.9.3 Other Filing Requirements

Company’s written and electronic communications may be subject to a spot-check procedure, and that firms must submit requested material within the time frame specified by the Advertising Regulation Department.

## 9.10 Content Standards

### 9.10.1 General Standards

Company communications are to be based on principles of fair dealing and good faith, to be fair and balanced, and to provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service. In addition:

* Company may not omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.
* Company may not make any false, exaggerated, unwarranted, promissory, or misleading statement or claim in any communication.
* Company may not publish, circulate or distribute any communication that it knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.
* Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.
* Company must ensure that statements are clear and not misleading within the context in which they are made, and that they provide balanced treatment of risks and potential benefits. Communications must be consistent with the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield inherent to investments.
* Company must consider the nature of the audience to which the communication will be directed and must provide details and explanations appropriate to the audience.
* Communications may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast; provided, however, that this point does not prohibit:

(i) A hypothetical illustration of mathematical principles, provided that it does not predict or project the performance of an investment or investment strategy;

(ii) An investment analysis tool, or a written report produced by an investment analysis tool, that meets the requirements of [Rule 2214](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=10651); and

(iii) A price target contained in a research report on debt or equity securities, provided that the price target has a reasonable basis, the report discloses the valuation methods used to determine the price target, and the price target is accompanied by disclosure concerning the risks that may impede achievement of the price target.

### 9.10.2 Comparisons

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

### 9.10.3 Disclosures

#### Company Name

All retail communications and correspondence must:

(A) Prominently disclose Company name, member FINRA and SIPC and address (also if using another name besides the Company member name or using a DBA) or the name under which the member's broker-dealer business primarily is conducted as disclosed on the member's Form BD, and may also include a fictional name by which the member is commonly recognized, or which is required by any state or jurisdiction;

(B) Reflect any relationship between Company and any non-member or individual who is also named; and

(C) If it includes other names, reflect which products or services are being offered by Company.

This paragraph does not apply to so-called "blind" advertisements used to recruit personnel.

#### ****Fees, Expenses and Standardized Performance****

Retail communications and correspondence that present non-money market fund open-end management investment company performance data as permitted by Securities Act Rule 482 and Rule 34b-1 under the Investment Company Act must disclose:

* The standardized performance information mandated by Securities Act Rule 482 and Rule 34b-1 under the Investment Company Act; and
* To the extent applicable:

a. the maximum sales charge imposed on purchases or the maximum deferred sales charge, as stated in the investment company's prospectus current as of the date of distribution or submission for publication of a communication; and

b. the total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements, as stated in the fee table of the investment company's prospectus described in paragraph (d)(5)(A)(ii)(a).

All of the information required above must be set forth prominently, and in any print advertisement, in a prominent text box that contains only the required information and, at the Company's option, comparative performance and fee data and disclosures required by Securities Act Rule 482 and Rule 34b-1 under the Investment Company Act.

#### SIPC Coverage

Company shall ensure that all communications which contain references to SIPC coverage is not improperly referred to as “insurance coverage” and that all limitations to such coverage are expressly detailed to the customer. New Account form standard disclosures and annual disclosures to customers are exempt from this provision. SIPC information with applicable link to their website is maintained on Company website, is listed on Company letterhead and business cards, and is included on Company’s New Account Form Agreement.

#### Use of FINRA Name or Logo

Company may indicate FINRA membership but neither states nor implies that FINRA, or any other corporate name or facility owned by FINRA, or any other regulatory organization endorses, indemnifies, or guarantees the member's business practices, selling methods, the class or type of securities offered, or any specific security, and provided further that any reference to the Department's review of a communication is limited to either “Reviewed by FINRA” or “FINRA Reviewed”;

Company and Associated Persons are prohibited from using the FINRA logo in any communication materials or any manner. However, the use “Member FINRA” or “FINRA Member Firm” or similar statements are permitted in such materials. A link to FINRA’s website is maintained on Company website.

### 9.10.4 Tax Considerations

In retail communications and correspondence, references to tax-free or tax-exempt income must indicate which income taxes apply, or which do not, unless income is free from all applicable taxes. If income from an investment company investing in municipal bonds is subject to state or local income taxes, this fact must be stated, or the illustration must otherwise make it clear that income is free only from federal income tax.

Communications may not characterize income or investment returns as tax-free or exempt from income tax when tax liability is merely postponed or deferred, such as when taxes are payable upon redemption.

A comparative illustration of the mathematical principles of tax-deferred versus taxable compounding must meet the following requirements:

* The illustration must depict both the taxable investment and the tax-deferred investment using identical investment amounts and identical assumed gross investment rates of return, which may not exceed 10 percent per annum.
* The illustration must use and identify actual federal income tax rates.
* The illustration may reflect an actual state income tax rate, provided that the communication prominently discloses that the illustration is applicable only to investors that reside in the identified state.
* Tax rates used in an illustration that is intended for a target audience must reasonably reflect its tax bracket or brackets as well as the tax character of capital gains and ordinary income.
* If the illustration covers the payout period for an investment, the illustration must reflect the impact of taxes during this period.
* The illustration may not assume an unreasonable period of tax deferral.
* The illustration must disclose, as applicable:

a. the degree of risk in the investment's assumed rate of return, including a statement that the assumed rate of return is not guaranteed;

b. the possible effects of investment losses on the relative advantage of the taxable versus the tax-deferred investments;

c. the extent to which tax rates on capital gains and dividends would affect the taxable investment's return;

d. the fact that ordinary income tax rates will apply to withdrawals from a tax-deferred investment;

e. its underlying assumptions;

f. the potential impact resulting from federal or state tax penalties (e.g., for early withdrawals or use on non-qualified expenses); and

g. that an investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors.

### 9.10.5 Testimonials

If any testimonial in a communication concerns a technical aspect of investing, the person making the testimonial must have the knowledge and experience to form a valid opinion. Retail communications or correspondence providing any testimonial concerning the investment advice or investment performance of Company or its products must prominently disclose the following:

* The fact that the testimonial may not be representative of the experience of other customers.
* The fact that the testimonial is no guarantee of future performance or success.
* If more than $100 in value is paid for the testimonial, the fact that it is a paid testimonial.

### 9.10.6 Recommendations

Retail communications that include a recommendation of securities must comply with Regulation Best Interest and have a reasonable basis for the recommendation and must disclose, if applicable, the following:

* That at the time the communication was published or distributed, the member was making a market in the security being recommended, or in the underlying security if the recommended security is an option or security future, or that the member or associated persons will sell to or buy from customers on a principal basis;
* That the Company or any Associated Person that is directly and materially involved in the preparation of the content of the communication has a financial interest in any of the securities of the issuer whose securities are recommended, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), unless the extent of the financial interest is nominal; and
* That the Company was manager or co-manager of a public offering of any securities of the issuer whose securities are recommended within the past 12 months.

Company must provide, or offer to furnish upon request, available investment information supporting the recommendation. When a member recommends a corporate equity security, the member must provide the price at the time the recommendation is made.

A retail communication or correspondence may not refer, directly or indirectly, to past specific recommendations of the member that were or would have been profitable to any person; provided, however, that a retail communication or correspondence may set out or offer to furnish a list of all recommendations as to the same type, kind, grade, or classification of securities made by the member within the immediately preceding period of not less than one year, if the communication or list:

* States the name of each such security recommended, the date and nature of each such recommendation (e.g., whether to buy, sell or hold), the market price at that time, the price at which the recommendation was to be acted upon, and the market price of each such security as of the most recent practicable date; and
* Contains the following cautionary legend, which must appear prominently within the communication or list: “it should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.”

FINRA Rule 2210(d)(7)(D) excludes from the requirement of this section any communication that meets the definition of “research report” for purposes of FINRA Rule 2241 and includes all of the applicable disclosures required by that Rule and do not apply to any communication that recommends only registered investment companies or variable insurance products; provided, however, that such communications must have a reasonable basis for the recommendation.

### 9.10.7 Prospectuses Filed with the SEC

Prospectuses, preliminary prospectuses, fund profiles and similar documents that have been filed with the SEC are not subject to the standards of this paragraph (d); provided, however, that the standards of this paragraph (d) shall apply to an investment company prospectus published pursuant to Securities Act Rule 482 and a free writing prospectus that has been filed with the SEC pursuant to Securities Act Rule 433(d)(1)(ii).

### 9.10.8 Public Speaking and Appearances

When sponsoring or participating in a seminar, forum, radio, or television interview, or when otherwise engaged in public appearances or speaking activities that are unscripted and do not constitute retail communications, institutional communications or correspondence (“public appearance”), Associated Persons must follow the standards of the General Standards above.

If an Associated Person recommends a security in a public appearance, the Associated Person must have a reasonable basis for the recommendation. The Associated Person also must disclose, as applicable:

* That the Associated Person has a financial interest in any of the securities of the issuer whose securities are recommended, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), unless the extent of the financial interest is nominal; and
* Any other actual, material conflict of interest of the associated person or member of which the associated person knows or has reason to know at the time of the public appearance.

Company shall establish written procedures that are appropriate to its business, size, structure, and customers to supervise its Associated Persons' public appearances. Such procedures must provide for the education and training of associated persons who make public appearances as to the Company's procedures, documentation of such education and training, and surveillance and follow-up to ensure that such procedures are implemented and adhered to. Evidence that these supervisory procedures have been implemented and carried out must be maintained and made available to FINRA upon request.

Any scripts, slides, handouts or other written (including electronic) materials used in connection with public appearances are considered communications for purposes of this Rule, and Company shall comply with all applicable provisions of the Rule based on those communications' audience, content, and use.

This does not apply to any public appearance by a research analyst for purposes of FINRA Rule 2241 that includes all of the applicable disclosures required by that Rule. It also does not apply to a recommendation of investment company securities or variable insurance products; provided, however, that the associated person must have a reasonable basis for the recommendation.

### 9.10.9 Violation of Other Rules

Any violation by Company of any rule of the SEC, the Securities Investor Protection Corporation or the Municipal Securities Rulemaking Board applicable to Company communications will be deemed a violation of this Rule 2210.

### 9.10.10 Consolidated Reports

Company may, as a courtesy to its customers, provide documents that consolidate information regarding a customer’s various financial holdings (and may include assets held away from the Company). These communications may supplement, but do not replace, the customer account statement and may not be represented as a substitute for, and must be distinguished from, account statements.

Reports must be clear, accurate and not misleading. For assets held away, this includes, among other things, taking reasonable steps to accurately reproduce information obtained regarding outside accounts and not to include information that is false or misleading.

**Guidelines**

The following guidelines will be followed when providing consolidated reports to customers:

* **Format**: The report may only be in the format approved by the Company. Home office uses the format of “Maps” (i.e. Mind Manager, Asset Map).
* **Account Values**: When compiling reports with account values, figures may be taken as current values as of a certain date and/or month/quarter end values per customer statements, if applicable (Company maintains account statements separately from reports). Statements may be included with the report provided to the customer but are not required since customer receives those independently from their respective custodians.
* **Company Holdings**: Reports must include a delineation for Company holdings, as the FINRA member firm, with either Woodlands Securities Corporation or WSC to delineate which holdings are part of Company’s versus held away assets.
* **Disclosures**: Reports should include the language to the following effect:
  + Securities offered through Woodlands Securities Corporation (WSC), member FINRA and SIPC;
  + The (or this) report includes assets that the FINRA member firm, WSC, does not include as part of its books and records and any assets held away from WSC may not be covered my SIPC;
  + The information contained in this report is provided as a courtesy only and may be an approximate value provided as of a certain date. It is not for IRS purposes and it is not an Account Statement.
* **Books and Records**: Company will maintain copies (may be electronically) of any reports generated for a period of three years.

**Review**

A random review of consolidated reports will be conducted as part of Company’s annual internal review and testing as well as any branch office reviews, if applicable. A review of these procedures will be reviewed at least on an annual basis.

## 9.11 Cold Calling

Although it is the Company’s general policy not to conduct cold calling, the Company shall make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations or wireless communications from the Company or its Associated Persons in accordance with Rule 3110 and MSRB Rule G-39. This list will be maintained on the CRM. All Associated Persons with the Company utilize this system or have access to its information. Any cold calling must be conducted using this system and reference the “Communication Status” for each name on the list of people to be called for any cold calling purpose. In addition, the Company will adhere to the Federal Trade Commission’s National Do-Not-Call Registry.

Further, in accordance with FCC rules for cold-calling solicitations, associated persons shall:

1. be prohibited against making any cold calls before 8:00am or after 9:00pm at the called party's location;
2. shall provide the called party with the name of the caller, the name of the Company and any agent for whom the call is being placed, a telephone number and address for contacting the caller, and that the purpose of the call is for solicitation of securities transactions or services;
3. any national do-not-call list must be referenced in order to ensure any name appearing in the CRM database or other cold calling list does not appear on such national listing, must honor that request for a period of five years and honor a person’s do-not-call request within a reasonable time from the date such request is made.  This period may not exceed thirty days from the date of such request;
4. Shall record/disclose or to mark such names as “No Calls” in the CRM;
5. Training: any personnel engaged in cold calling will be trained in Company and Regulatory procedures prior to engaging in such activity;
6. No outside telemarketing source may be utilized.

Company and its employees must avoid solicitation to any numbers on the National Do-Not-Call Registry established by the FTC and FCC unless the person has an “established business relationship” with the Company.

Further, calls to customers for Company related activity or business does not apply to these requirements. Any Do-Not-Call list shall be maintained under the direct supervision Morris Monroe or the designated principal at each OSJ.

It is Company’s policy to prohibit any outbound telemarketing call that delivers a prerecorded message, any facsimile advertising or marketing, any wireless communication marketing, or third-party telemarketer. In addition, the following are prohibited when calling customers or prospective customers:

* Threats, intimidation, or use profane or obscene language;
* Calling repeatedly with intent to annoy, abuse, or harass; or
* Using an alias.

## 9.12 Electronic Communications

The following procedures have been developed by the Company to ensure that communications with the public, which are initiated by Associated Persons and disseminated through electronic media, comply with the approval, recordkeeping, and filing requirements of FINRA Rules. All communications with the public (i.e. Internet Postings), regardless of the medium, are subject to the antifraud provisions of the federal securities laws, SEC rules, and FINRA Rules. Please note however that E-Mail directed only to an individual customer, like a piece of written correspondence sent to an individual and thus not subject to the higher standards established by FINRA Rule 2210 for such communications.

Communications relating to Company's business MUST be communicated through Company-provided or Company-approved systems, devices, and channels. Important federal and SRO regulations require the retention of copies of ALL business communications, and failure to comply has resulted in multi-million-dollar fines against firms and individuals. Company has established procedures for retaining records of communications through its systems, devices, and channels. This means:

1. Personal phones or other personal devices may NOT be used for business communications.
2. Outside channels such as Facebook, Twitter, and others may NOT be used for communicating with customers, prospects, broker-dealers, or anyone else regarding Firm-related business matters.
3. Violation of these requirements may result in termination.

Questions regarding allowable communications should be referred to Compliance.

### 9.12.1 Email

Just as with written correspondence as outlined previously under “Correspondence,” electronic communications must be reviewed and approved in writing by a designated principal. This review does not have to occur prior to sending to a client if a supervisory system is in place to assure random principal review of such transmissions and that the registered individuals of the Company are educated regarding the appropriate procedures and rules governing such activity. The use of personal e-mail accounts for business communications is prohibited.

Electronic correspondence is recorded and archived for retrieval. Emails related to securities business will be maintained for a period of three years. All reviewed emails are maintained in the compliance portal and currently reviewed by Laura Hendricks at a minimum a random selection weekly, as evidenced as “Reviewed” in the database.

If the reviewer feels that the correspondence may conflict with regulatory standards, the reviewer shall consult with the representative, possibly take corrective action, and contact any applicable customer either verbally or in writing, if appropriate, in order to clarify any possible misunderstandings. Records of such actions and all approved e-mail correspondence will be retained for three (3) years, two (2) in an easily accessible location.

All emails qualifying as retail communications shall be approved by a designated principal prior to dissemination. When the E-mails are sent, a list of recipients will be attached to an approved screen print and given to Morris Monroe or the designated principal for review and approval and recordkeeping.

### 9.12.2 Instant Messaging, Text Messaging, Blogs, Social Networks, etc.

Theseare strictly prohibited by the Company for securities business activities when conducted outside of Company or archival systems by Company. However, the use of a mobile device for securities related emails and/or the use of Company social networks such as Facebook, LinkedIn, etc., are permitted only if communications are conducted through the Company email system and/or Company can maintain any profile or site pages. In addition, Company and its employees are prohibited from sponsoring a social media site or using a communication device that includes technology which automatically erases or deletes content. Company Associated Persons certify annually their nonuse of securities related outside electronic communications. First time violations will result in a warning. Any violations subsequent to a Company warning may be grounds for a fine or immediate termination.

### 9.12.3 Bulletin Boards

With respect to communications posted by Associated Persons of the Company on electronic bulletin boards and/or message boards, such materials shall be considered retail communications but do not have to be pre-approved and shall be retained in the Company’s books and records in accordance with SEC Rule 17a-3 and 17a-4.

### 9.12.4 Facsimiles

Any document that is to be sent via facsimile that qualifies as retail communications or correspondence dealing with investment or securities business should be presented in hard copy form to a designated principal for review and approval. This copy will then be retained in the correspondence file along with the fax confirmation as evidence of the review and approval. The approved correspondence/fax will be retained for three (3) years, two (2) in an easily accessible location.

### 9.12.5 Websites

Websites are considered retail communications due to general public accessibility. It is the responsibility of Morris Monroe or Laura Hendricks to supervise the content of the Company’s and Associated Person’s websites and to ensure content on the website complies with the rules and regulations of the regulatory authorities. Records of website material and evidence of review and approval shall be kept with the Company’s records for a period of three years (with 2 years readily accessible). Any Associated Person intending to utilize a website other than the Company website must submit the website material for review and approval to Morris Monroe or Laura Hendricks prior to going live to the public. As part of Company’s annual examination, a review of applicable websites will be added.

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

* A market snapshot; and
* Headline news.

Reviews of data feeds will be conducted on the same days as emails are reviewed in the archived system. The log maintained for emails reviewed will also serve as the log for data feeds reviewed for those same days. Any requests for new data providers will be advised by Compliance whether the data provider is approved and will retain records of its review.

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# 10. RECORDKEEPING & OPERATIONS

## 10.1 Introduction

It is the Company's intent to conduct all recordkeeping and operations in a highly sophisticated and ethical manner and to comply with regulatory rules and requirements. SEC Rule 17a-3 identifies the types of books and records to be retained by Company and 17a-4 identifies the period these records are to be retained. SROs also specify certain record requirements. Designated supervisors are responsible for retaining required records for areas under their supervision. Company introduces its transactions on a fully disclosed basis to its clearing firm and therefore will rely on the clearing firm to retain certain records regarding Company’s accounts and transactions.

## 10.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principal |
| **Statutes** | * SEC Rule 17a-3 and 17a-4 – books and records (34 Act Section 240) * FINRA Rule 1150 – Executive Representative * SEC Rule 15c3-1, 15c3-3 (Rule 3140), 17a-11 – financial reporting * FINRA Rule 2270 – Disclosing Company financial condition  FINRA Rule 1010-Uniform Form Filing  * FINRA Rule 2263-Form U-4 Arbitration Disclosure * FINRA Rule 1122-Filing of Misleading Membership or Registration Information * FINRA Rule 4110 – Capital compliance * FINRA Rule 4140 – Audit * FINRA Rule 4150 – Guarantees by, or flow through benefits * FINRA Rule 4160 – Verification of Assets * SEC Rule 17a5(f) – Designation of Accountant * SEC Rule 17f-1 and 17f-2 – Lost, stolen, missing securities; and Fingerprint requirements.  FINRA Rule 8210 - Provision of Information and Testimony and Inspection and Copying of Books  * FINRA Rule 4511 – General Record Keeping Requirements * FINRA Rule 4512 – Customer Account Records * RINRA Rule 4513 – Customer Complaint Records * FINRA Rule 4530 – Reporting Requirements |
| **Frequency** | * As required * Daily * Monthly preparation of reports, financials * Qtrly Focus Reports * Annual Schedule I, Renewals, Exemptions, Certifications |
| **Actions** | * Develop internal system or choose a vendor or other third party that meets rule requirements * Contract with an independent third-party download partner, if appropriate * Notify DEA when initiating electronic storage and provide third party representation * Provide revised notifications to DEA if necessary * Obtain senior management approval of system configuration to store records and subsequent changes * Issue passwords to authorized personnel. * For terminated personnel, disable passwords for those no longer requiring access. Obtain office key(s) and other Company materials. Change passwords to applicable sites known by all staff (i.e. Company website pw protected area). Inspect Signature Guarantee STAMPS inventory to ensure all accounted for. Amend lists for employees or reps in WSP and where applicable (i.e. CE, Compliance documents, website, WinOps, the CRM, any lists for regulatory purposes). File U-5 if applicable and send copy to individual within 30 days. * Take corrective action internally or with outside vendor if anomalies are detected * File electronically Rule 4530 disclosures when deemed applicable and within 30 calendar days of knowledge of such event * File required regulatory reports * Review FINRA Reports, Firm Profile, FCS, SAA certification |
| **Records** | * Contracts with vendors or other third parties, if any * Fidelity Bond Policy * Notification(s) to DEA * Archived Email * Applicable employee and Rep files records * financial files and records * Reviews * Rule 4530 disclosures * CRD Firm Profile Review, FCS review & SAA Certification |

## 10.3. Executive Representative

Morris Monroe is designated as the Executive Representative for FINRA. Per Rule 1150, a review of the Executive Representative will be conducted quarterly and if necessary, any changes will be filed electronically within 17 business days after the calendar quarter-end with FINRA (effective 05/14/2004). The first review and/or update must be filed within 17 business days after the June 30, 2004 quarter.

Morris Monroe and/or his designee, Laura Hendricks, are responsible for the electronic filing and supervision thereof. Morris Monroe and Laura Hendricks are responsible for Form BD amendments and the proper and timely filing of FINRA and Regulatory fees and assessments and the record retention of such.

## 10.4 Financial and Operational Records

All accounting records will be maintained daily in order to comply with the regulations relative to net capital requirements and other regulated practices in this area. In accordance with Schedule C of the FINRA By-Laws the Company designates Morris Monroe as its Financial and Operations Principal responsible for the financial reporting duties specified in SEC Rules 17a-3 and 17a-4 and with the primary responsibility for books and records under section (c)(v) contained therein.

### 10.4.1 Exemption from SEC Rule 15c3-3

Because of the nature of Company’s business, it qualifies for an exemption under Rule 15c3-3(k) or is a "Non-Covered Firm." The FINOP is responsible for determining that the Company qualifies for one of the two following exemptions:

1. **Exemption under (k)2(i)**

Company carries no margin accounts and promptly transmits customer funds and securities to its clearing firm. Company does not hold funds or securities from, or owe money or securities to, customers and effects all financial transactions between the firm and its customers through one or more bank accounts, each designated as "Special Account for the Exclusive Benefit of Customers of the firm."

1. **Exemption under (k)2(ii)**

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

Company currently claims the (k)2(ii) exemption.

#### Receipt of Customer Funds or Securities

Company does not hold funds or securities for or owe money or securities to its customers. In the event that funds or securities are received by Company, an entry will be made in the WinOps Send/ Received Log recording the date, amount, and, in the case of securities, a description of the securities received, and the action taken to return such funds or securities to their rightful owner. Instructions may be given to a customer to forward the securities directly to the clearing firm. No later than the next business day, Company will return the funds or securities to the sender (or at the customer’s request, the check may be shredded and noted in the S/R Log). If the sender cannot be immediately determined or other extenuating circumstances, Company will either forward to the intended custodian or open a separate bank account, to be designated as “Special Account for the Exclusive Benefit of the Owner of Funds and Securities,” into which the funds or securities will be deposited and held until the rightful owner has been identified.  If funds are forwarded to the intended custodian, a review will be conducted to indicate the funds were correctly deposited into the customer's account and not any Company related account.  Such review will be included in the Cashiering file.

### 10.4.2 Annual Audit

On an annual basis, Company’s FINOP is responsible and shall ensure an annual certified audit is conducted and review such audit as to its accuracy and compliance with SEC and FINRA rules and regulations. Company’s FINOP shall ensure it is filed electronically through the CRD Filing System and received by the 60th calendar day following year end and include the oath and affirmation page. Electronic filing is made through the FINRA Firm Gateway, Regulatory Filing Application, the SEC, and for SIPC (hard copies if required will be filed with the SEC’s Washington office, Company’s regional SEC office, any state regulators who require paper filing, and the SIPC form 7 along with the Agreed-Upon Procedures Report from Company’s auditors with the Securities Investor Protection Corporation (“SIPC”) pursuant to Rule 204.17-5(d)(6). The FINOP will retain records of the filings including the filings themselves, names of regulators, and date of filing. Reports will be as of the same fixed or determinable date each year, unless a change is approved in writing by FINRA. A copy of FINRA's written approval will be sent to Company's SEC regional office.

Review and approval of the annual audit and filings shall be evidenced by Morris Monroe’s, or his officer designee's dated execution of each annual audit report. Such audit shall be conducted by an independent, Public Company Accounting Oversight Board (PCAOB) member. A copy of each year's executed annual audit report shall be made a part of the Company's permanent files.

### 10.4.3 Focus Reports, Schedule I, Form Custody, Exemptions

On a quarterly basis, Morris Monroe shall review and/or prepare the FOCUS IIA Report, currently under exemption (k)(2)(ii) pursuant to SEC Rule 15c3-3 (Rule 3140), and such other financial reports as may be required to be filed with the SEC, FINRA or state regulatory agencies. Such review and approval shall be evidenced by Morris Monroe’s dated initialed execution of each FOCUS IIA Report. A copy of each quarter's executed FOCUS IIA Report shall be made a part of the Company's permanent files.

Schedule I shall be filed electronically within 17 business days subsequent to each calendar year along with the fourth quarter Focus IIA filing. A copy of said report will be maintained in Company records along with the Focus reports and reviewed by Morris Monroe.

Form Custody shall be filed electronically beginning with the January 2014 filing along with the Focus IIA and quarterly thereafter within 17 business days after the end of each calendar quarter and within 17 business days after the end of the fiscal year of the broker or dealer where that date is not the end of a calendar quarter. Said reports will be maintained in the financial records of Company.

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

### 10.4.4 Net Capital Computation

On a monthly basis (or more frequently if necessary), Morris Monroe, or his designee shall review and/or prepare a Net Capital Computation and Statement of Aggregate Indebtedness pursuant to SEC Rule 15c3-1, and such other financial reports as may be required to be filed with the SEC, FINRA or state regulatory agencies. Pursuant to Company’s PAIB Agreement with the clearing firm, the Company may include its clearing deposit as an allowable asset for net capital computation purposes pursuant to SEC Rule 15c3-1 provisions. Pursuant to Company’s fidelity bond, any deductible amount elected by the Company that is greater than 10% of the coverage purchased by the member must be deducted from its net worth in the calculation of net capital for purposes of SEA Rule 15c3-1.

Such review and approval shall be evidenced by Morris Monroe’s initialing of each monthly Net Capital Computation with Statement of Aggregate Indebtedness. A copy of each month's Net Capital Computation with Statement of Aggregate Indebtedness, reflecting evidence of review and approval by Morris Monroe shall be made a part of the Company's permanent files.

If the Company’s net capital declines below the minimum amount required pursuant to S240.15c3-1, it shall give notice in accordance with **SEC Rule 17a-11** by means of telegraphic or facsimile transmission of such deficiency that same day to the national and regional Commission offices and the DEA office.

Pursuant to Rule 2270, the Company shall make available to inspection any bona fide regular customer, upon request, the information relative to the Company’s financial condition as disclosed in its most recent balance sheet prepared either in accordance with Company’s usual practice or as required by state and regulatory securities laws, or any rule or regulation thereunder. (*Rule only applies to members who have possession of customers’ cash and securities.)* The Company is exempt from Rule 2280 (Investor Education and Protection) due to it does not carry customer funds or securities. In addition, Company will provide its financial condition or balance sheet to any member firm, upon request, that is a party to an open transaction or has on deposit Company clients’ funds or securities. The information may be provided electronically, however, if to a customer, a Consent to Electronic Delivery must be received.

Morris Monroe or Laura Hendricks will review all FINRA assessments and fees when received and ensure that they are paid on a timely basis.

### 10.4.5 Reconciliations and Bank Records

Company’s FINOP is responsible for establishing procedures for the periodic reconciliation of bank statements, clearing and depository accounts, and other accounting and business records. Bank account reconciliations will be conducted on a monthly basis. Records of bank accounts and other reconciled accounts will be maintained in accordance with regulatory requirements. Review of said records will be evidenced by FINOP’s initialed Focus reports and Net Capital Computations.

### 10.4.6 FINRA Rule 4110(c)(1) – Withdrawal of Equity Capital

Company shall not withdraw equity for a period of one year from the date when equity capital is contributed, unless permitted in writing by FINRA. However, Company is not precluded from withdrawing profits.

### 10.4.7 FINRA Rule 4110(d)(4) – Using Ready Market Securities for Loans

Any agreement related to the determination of a ready market for securities based upon the securities being accepted as collateral for a loan by a bank under SEA Rule 15c3-1(c)(11)(ii), must be submitted to and be acceptable to FINRA before the securities may be deemed to have a "ready market."

### 10.4.8 FINRA Rule 4140 – Audit

Pursuant to Rule 4140, Company shall cooperate with any request from FINRA who may at any time, due to concerns regarding the accuracy or integrity of a member's financial statements, books and records or prior audited financial statements, direct any member to cause an audit to be made by an independent public accountant of its accounts, or cause an examination to be made in accordance with attestation, review or consultation standards prescribed by the AICPA. Such audit or examination shall be directed pursuant to authority exercised by FINRA's Executive Vice President charged with oversight for financial responsibility, or his or her written officer delegate, and shall be made in accordance with such requirements as FINRA may prescribe. Any member failing to file an audited financial and/or operational report or examination report under this Rule in the prescribed time shall be subject to a late fee as set forth in Schedule A [Section 4](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4698)(g)(1) to the FINRA By-Laws.

### 10.4.9 Rule 4150 - Guarantees By, or Flow through Benefits for Members

Whenever the Company guarantees, endorses, or assumes, directly or indirectly, the obligations or liabilities of another person or entity, a written request will be made to FINRA. Prior written approval from FINRA is required whenever the Company receives flow-through capital benefits in accordance with SEC Rule 15c3-1, Appendix C. The FINOP is responsible for ensuring the filing of necessary requests for such arrangements, responding to subsequent FINRA requests for information, complying with FINRA rule requirements, and maintaining records regarding such arrangements.

The requirements include the following:

* Company must have the authority to make available to FINRA the books and records of the other person or entity for inspection in the US. The other person’s books and records must be kept separately from those of the Company.
* Company is required to provide FINRA with the person’s FOCUS reports simultaneous with their being filed with the person’s designated examining authority (DEA), unless the person’s DEA is FINRA. If the person is not a registered broker-dealer, the Company will submit financial and operational statements in a format and for time periods required by FINRA.
* Guarantees executed in the normal course of business (trade guarantees, signature guarantees, endorsement of securities and the writing of options) are not subject to these requirements. Guarantees regarding the writing of options are not subject if appropriately recorded in the Company’s books and records and reflected in net capital computations.

### 10.4.10 Designation of Accountant/ SEA Rule 17a-5(f)(2)

Morris Monroe is responsible for ensuring the filing of the notice of designation of accountant with the SEC principal office, SEC regional office, and FINRA by December 10 of each year for the following year’s audit unless the agreement is of a continuous nature providing for successive annual audits. If such agreement should terminate, a notice filing to FINRA and the two SEC offices must be filed within 15 days of termination or when a new accountant has been designated. Company shall maintain a record of such notices as part of its books and records. In light of the recent rule changes to SEA Rule 17a-5, Company should continue to use the [Designation of Accountant](http://www.mmsend6.com/link.cfm?r=12886786&sid=27954504&m=3115874&u=finra&j=15659686&s=http://www.finra.org/web/groups/industry/@ip/@comp/@regis/documents/industry/p009841.pdf?utm_source=MM&utm_medium=email&utm_campaign=Weekly%5FUpdate%5F111313%5FFINAL) form through May 31, 2014. The form titled “Statement regarding the independent public accountant under Rule 17a-5(f)(2)” discussed in SEA Release No. 34-70073 will be required beginning June 1, 2014. The amended Rule will require the form to be filed electronically, through FINRA’s Firm Gateway, using the new template (referred to as the Rule 17a-5(f)(2) Statement) and available starting 11/24/14. Rule 17a-5(f)(2) Statements must also be filed with the SEC’s principal office in Washington, DC, and the regional office of the SEC for the region in which the Company’s principal place of business is located (or Fort Worth).

### 10.4.11 Expense Sharing Arrangements

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

In addition, Company’s FINOP is responsible for notifying its Designated Examining Authority (DEA) if any expense-sharing agreement does not record each of the expenses it incurs relating to its business on the reports it is required to file with the SEC or with the DEA. The notice will include the date of the agreement and the names of the parties to the agreement; a copy of the agreement will be provided to the DEA upon request. Company will notify its DEA if it establishes a new agreement or amends any existing agreements. Company will maintain as part of its books and records a copy of any such agreements and any supporting documents.

### 10.4.12 FINRA Rule 4160 – Verification of Assets (*eff 02/01/11)*

If applicable, Company will comply with any request from FINRA to withdraw any of its assets from a non-FINRA member institution after failing to provide verification of assets. Morris Monroe will be responsible for ensuring the withdrawal of assets and transferring to another financial institution.

### 10.4.13 FINRA Contact System & Entitlement Program (SAA)

Morris Monroe or Compliance will be responsible for reviewing the contacts in the FINRA contact system at least annually but within 17 business days of calendar year end.

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

* Executive Representative
* Regulatory Element Continuing Education Contact Person [FINRA Rule 1250]
* Emergency contact persons [FINRA Rule 4370]
* AML contact person(s) [FINRA Rule 3310.02]
* Other contacts mandated by FINRA rules

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

Emergency contact persons must include one registered principal and senior management and the second one may be unregistered and who have knowledge of the Company’s business. A written record of reviews will be retained.

FINRA's Entitlement Program provides authorized personnel with access to FINRA Web Applications. Company has designated a Super Account Administrator (SAA) who is responsible for creating, editing, or deleting accounts for Account Administrators and users at Company. The designating criteria for the SAA are as follows:

* Must be formally delegated the authority by Company and as authorized in the New Organization Super Account Administrator (SAA) Form (or Update/Replace Super Account Administrator (SAA) Form) to perform the SAA responsibilities on its behalf.
* The designation forms must be executed by an Authorized Signatory

The SAA is responsible for the following:

* Designate Account Administrators and users;
* Update authorized persons as required;
* Certify annually to FINRA; and
* Retain information about authorized users, updates, and certifications.

### 10.4.14 Subordination Agreements with Investors

If the Company enters into a subordination agreement with an investor, it will provide the investor with a copy of FINRA Subordination Agreement Investor Disclosure Document and obtain the investor's signature on a copy of the Document. A copy of the signed Disclosure Document will be submitted to FINRA with the subordination agreement, for approval. The FINOP is responsible for obtaining and submitting the required documents for subordination agreements.

### 10.4.15 Notification (“Early Warning”) Rule

The FINOP is responsible for notifying (within 24 hours) the SEC and other securities regulators upon the occurrence of certain events (i.e. insolvency, decrease of net capital below required minimum). The FINOP is responsible for maintaining records of any early warning notifications (or monthly reports if applicable).

### 10.4.16 SEC Rule 17a-5

Company's FINOP has determined its obligation to provide financial statements to customers meets an exemption discussed below. Rule 17a-5 should be consulted for details regarding the requirements especially if any exemption no longer exists. Broker-dealers are required to provide financial statements to their customers unless they qualify for an exemption, which includes: (1) an introducing broker or dealer; (2) a BD that promptly forwards subscriptions for securities to the issuer, underwriter, or other distributor and does not hold funds or securities; (3) a BD dealing with subscriptions of mutual funds, sale/redemption of savings and loan associations, or offering credit for loans to purchase insurance related to the sale of mutual funds; or (4) a BD that conducts business that is exempt under Rule 17a-3(a). These exemptions have further conditions and Rule 17a-5 should be consulted.

## 10.5 Preparation and Processing Corporate Records

The Company, or its clearing agent, as applicable, shall make and keep current the following books and records relating to the Company's business:

1. Blotters (or other records of original entry) containing an itemized daily record of all purchases and sales of securities, all receipts and deliveries of securities (including certificate numbers), all receipts and disbursements of cash and all other debits and credits. Such records shall show the account for which each such transaction has been affected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date and the name or other designation of the person from whom purchased or received or to whom sold or delivered;

2. Ledgers (or other records) reflecting all assets and liabilities, income and expense and capital accounts;

3. Ledger accounts, by its clearing firm, Hilltop Securities, Inc., (or other records) itemizing separately as to each cash and margin account of every customer and of the Company, all purchases, sales receipts and deliveries of securities and commodities for such accounts and all other debits and credits to such accounts;

4. Ledger, by its clearing firm, Hilltop Securities, Inc., (or other records) reflecting the following as applicable:

a. Securities in transfer;

b. Dividends and interest received;

c. Securities borrowed and securities loaned;

d. Monies borrowed and monies loaned (together with a record of the collateral and any substitutions in such collateral);

e. Securities failed to receive and failed to deliver;

f. All long and short securities record differences arising from the examination, verification, count, and comparison pursuant to 1934 Act Rule 17a-13 and Rule 17a-5; and

g. Repurchase agreements and securities subject thereto;

5. A securities record or ledger, through its clearing firm, Hilltop Securities, Inc., reflecting separately for each security, as of the clearance dates, all "long" and "short" positions (including securities in safekeeping and securities that are the subject of repurchase or reverse repurchase agreements) carried by the Company for its account or that of its customers or others, and showing the location of all securities long and the offsetting position to all securities short, including long securities count differences and short securities count differences classified by the date of the physical count and verification in which they were discovered, and in all cases the name or designation of the account in which each position is carried;

6. A memorandum of each brokerage order, and any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such memorandum shall show the terms and conditions of the order or instructions and of any modification or cancellation, the account for which it was entered, the time of entry, the price at which executed and, to the extent feasible, the time of execution or cancellation. Orders entered pursuant to the exercise of discretionary power by the Company or any employee shall be so designated. The HTS electronic report will be utilized for this recordkeeping requirement;

7. A memorandum of each purchase and sale for the account of the Company, showing the price, and to the extent feasible, the time of execution, and where such a purchase or sale is with a customer other than a broker or dealer, a memorandum of each order received, showing the time of receipt, the terms and conditions of the order and the account in which it was entered if ever applicable;

8. Copies of confirmations of all purchases and sales of securities, including copies of all repurchase and reverse repurchase agreements, and copies of notices of all other debits and credits for securities, cash, and other items for the account of customers and partners of the Company. Copies of confirmations will be maintained electronically via the software system of Hilltop Securities, Inc. in each customer’s account;

9. A record of each cash and margin account with the Company, by its clearing firm, Hilltop Securities, Inc., indicating:

a. The name and address of the beneficial owner of the account;

b. Except with respect to exempt employee benefit plan securities (but only to the extent such securities are held by employee benefit plans established by the issuer of the securities), whether a beneficial owner of securities registered in a name other than that of such beneficial owner objects to disclosure to issuers of his or her identity, address, and securities positions; and

c. In the case of a margin account, the signature of such owner;

10. A record of all puts, calls, spreads, and other options in which the Company has any direct or indirect interest or which the Company has granted or guaranteed, containing, at a minimum, an identification of the security and the number of units involved, if ever applicable;

11. A record of the proof of money balances of all ledger accounts in the form of trial balances, and a record of the computation of aggregate indebtedness and net capital, as of the trial balance date, pursuant to 1934 Act Rule 15c3-1;

12. A questionnaire or application (a Form U-4 may be used) for employment executed by each "associated person" of the Company, which shall be approved in writing by an authorized representative of the Company and shall contain, at a minimum, the following:

a. His or her name, address, social security number and the starting date of his or her employment or other association with the Company;

b. His or her date of birth;

c. A complete statement of his or her business connections for at least the preceding ten years, including whether such employment was part-time or full-time;

d. A record of any denial of membership or registration, and of any disciplinary action taken, or sanction(s) imposed, upon him or her by any federal or state agency, or by any national securities exchange or national securities association, including any finding that he or she was a cause of any disciplinary action or had violated any law;

e. A record of any denial, suspension, expulsion or revocation of membership or registration of any broker-dealer with which he or she was associated in any capacity when such action was taken;

f. A record of any permanent or temporary injunction entered against him or her or any broker-dealer with which he or she was associated in any capacity at the time such injunction was entered;

g. A record of any arrest or indictment for any felony, or any misdemeanor pertaining to securities, commodities, banking, insurance or real estate, fraud, false statements or omissions, wrongful taking of property or bribery, forgery or counterfeiting or extortion, and the disposition of the foregoing; and

h. A record of any other name by which he or she has been known or which he or she has used.

If such "associated person" was or is a registered representative of the Company, or his or her employment had been approved by the FINRA or any stock exchange, then retention of a full, correct and complete copy of all applications for such registration or approval shall satisfy these requirements.

13. A record of all FINRA and MSRB fees and assessments paid

## 10.6 FINRA Rule 1010-Uniform Form Filing

Company shall file all forms required by Article IV, Sections [1](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4609), [7](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4615), and [8](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4616), and Article V, Sections [2](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4619) and [3](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4620), of the FINRA By-Laws through the electronic process or such other process FINRA may prescribe to the Central Registration Depository. Company identifies Laura Hendricks as the person authorized to make filings on behalf of Company, however another designee (who need not be registered) or third party by agreement, may be issued authorization for such filings. Morris Monroe shall ultimately be responsible for the supervision over such activities and that such filings are properly executed.

### 10.6.1 Form U-4 Filing Requirements

Company shall retain individuals’ manual signature for each initial or transfer Form U-4 or changes to disclosure questions. However, in lieu of manual signatures for amended disclosures, Company may forward a copy of any changes to Associated Persons, prior to filing, for their review and receive a written acknowledgement (may be electronic) from such persons that the information to be filed has been received and reviewed. Any other administrative amendments to Form U-4 (such items as the addition of state or self-regulatory organization registrations, exam scheduling, and updates to residential, business and personal history) do not require a manual signature but Company will forward any copy of such change to applicable persons per their request. If for some reason, Company cannot obtain person’s manual signature due to the Associated Person’s refusal to acknowledge such information, is on active military service or otherwise is unavailable during the period provided for filing of such amendments under [Article V](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4617) of the FINRA By-Laws), Company shall enter "Representative Refused to Sign/Acknowledge" or "Representative Not Available" or a substantially similar entry in the electronic Form U4 field for the Associated Person's signature.

#### 10.6.1.1 FINRA Rule 2263-Form U-4 Arbitration Disclosure

When Associated Persons file an initial or transfer Form U-4 that requires a manual signature, Company will provide the Arbitration Disclosure as mandated by Rule 2263 pertaining to the predispute arbitration clause to applicable Associated Person before they sign the Form U-4.

#### 10.6.1.2 Employee Obligation to Notify the Company and The Company's Obligation to Report

Company shall report certain events and update Forms U4 and U5 when previously filed information changes. **Employees are obligated to notify Compliance if there are changes to Form U4 responses and report other information required by rule or by Company.**

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

1. The member or an associated person of the member:

* has been found to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations, or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization or business or professional organization;
* is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;
* is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory body or self-regulatory organization alleging the violation of any provision of the Exchange Act, or of any other federal, state or foreign securities, insurance or commodities statute, or of any rule or regulation thereunder, or of any provision of the by-laws, rules or similar governing instruments of any securities, insurance or commodities domestic or foreign regulatory body or self-regulatory organization;
* is denied registration or is expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization;
* is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military or foreign court;
* is a director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with, a broker, dealer, investment company, investment advisor, underwriter or insurance company that was suspended, expelled or had its registration denied or revoked by any domestic or foreign regulatory body, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution that was convicted of or pleaded no contest to, any felony or misdemeanor in a domestic or foreign court;
* is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding $15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding $25,000; or
* is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a "statutory disqualification" as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification; or

1. An Associated Person of the Company is the subject of any disciplinary action taken by the Company involving suspension, termination, the withholding of compensation or of any other remuneration in excess of $2,500, the imposition of fines in excess of $2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual's activities on a temporary or permanent basis.

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

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

### 10.6.2 Fingerprint Cards

Company shall promptly submit fingerprint cards within 30 days of filing an electronic Form U-4 for any person as required. No Associated Person may be actively engaged in any securities activities required by registration until such registration is effective and approved.

### 10.6.3 Operations Personnel

Certain operations personnel are considered “covered persons” under FINRA Rule 1230 due to their responsibilities for “covered functions” as defined in the Rule. These personnel are required to qualify as “Operations Professionals” by completing the Series 99 qualification examination or by qualifying for an exception because of the person’s other registration qualifications. In general, “Covered Persons: apply to:

* Senior management responsible for covered functions;
* Persons designated by senior management to supervise, manage, or approve or authorize work relating to the covered functions; and
* Persons with authority or discretion to materially commit the Company’s capital relating to covered functions. The Rule shall be consulted for definitions of Covered Persons and Covered Functions.

“Covered Functions” include:

* Client on-boarding (customer account data and document maintenance);
* Collection, maintenance, re-investment (*i.e.*, sweeps) and disbursement of funds;
* Receipt and delivery of securities and funds, account transfers;
* Bank, custody, depository and firm account management and reconciliation;
* Settlement, fail control, buy ins, segregation, possession and control;
* Trade confirmation and account statements;
* Margin;
* Stock loan/securities lending;
* Prime brokerage (services to other broker-dealers and financial institutions);
* Approval of pricing models used for valuations;
* Financial control, including general ledger and treasury;
* Contributing to the process of preparing and filing financial regulatory reports;
* Defining and approving business requirements for sales and trading systems and any other systems related to the covered functions, and validation that these systems meet such business requirements;
* Defining and approving business security requirements and policies for information technology, including, but not limited to, systems and data, in connection with the covered functions; Defining and approving information entitlement policies in connection with the covered functions; and
* Posting entries to a member's books and records in connection with the covered functions to ensure integrity and compliance with the federal securities laws and regulations and FINRA rules.

In addition, Covered Persons are required to participate in Regulatory Element and Firm Element continuing education. Compliance is responsible for confirming that covered persons complete the necessary requirements for registration and continuing education and to restrict an employee’s activities if either requirement is not completed within required timeframes.

Any person who is required to register as an Operations Professional as of October 17, 2011 shall request registration as an Operations Professional via Form U4 in CRD within 60 days after October 17, 2011. Any person who is required to register as an Operations Professional as of October 17, 2011 and must pass the Operations Professional qualification examination (or an eligible qualification examination) to qualify for Operations Professional registration shall be allowed a period of 12 months beginning on October 17, 2011 to pass such qualifying examination, during which time such person may function as an Operations Professional.

### 10.6.4 NRF Individuals

On at least an annual basis, Company shall review all Non-Registered Fingerprint individuals in the CRD system for accuracy of current information and/or any required amendments. A list of submitted fingerprints will also be maintained as part of Company records with dates of submission and any termination date. A record of any review of such NRF individuals and list will be conducted by Compliance and included on the Internal Exam.

### 10.6.5 Form U-5 Filing Requirements

Company shall retain all initial and amended Form U-5s for a period of three years, the first two years readily accessible.

## 10.7 Membership or Registration Information

### 10.7.1 FINRA Rule 1122 - Filing of Misleading Information

Neither Company nor any Associated Person shall file with FINRA information with respect to membership or registration which is incomplete or inaccurate so as to be misleading, or which could in any way tend to mislead, or fail to correct such filing after notice thereof.

### 10.7.2 Member Application and Associated Person Registration (MAP Rules)

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

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

Company must file a Continuing Membership Application (CMA) when a person who, during the past five years, becomes subject to one or more "final criminal matters" or two or more "specified risk events" and seeks to become an owner, control person, principal or registered person of Company. As an alternative, Company may submit a written request to FINRA for a materiality consultation for the contemplated activity. This does not apply to an existing RR or principal of Company who seeks to add an additional RR- or Principal-level registration, respectively.

## 10.8 Carrying Agreement

Company introduces its accounts and customer transactions to its carrying firm, Hilltop Securities, Inc, on a fully disclosed basis. Customers receive a carrying firm Information Brochure that discusses the relationship and discloses certain account information. Company has executed a carrying agreement consistent with regulators' requirements and will amend its carrying agreement when necessary. Any new carrying agreement or amendment will be submitted to its designated SRO for review and approval. Morris Monroe or Laura Hendricks is responsible for executing required carrying agreements or amendments and retaining such records.

## 10.9 Fidelity Bond Coverage

The Company maintains fidelity bond coverage as required and which covers at least the following:

1. Fidelity
2. On premises
3. In transit
4. Misplacement
5. Forgery and alteration (including check forgery)
6. Securities loss (including securities forgery)
7. Fraudulent trading
8. Cancellation rider providing that the insurance carrier will use its best efforts to promptly notify the FINRA, Inc. in the event the bond is cancelled, terminated, or substantially modified.

The Company will review its coverage annually as of the anniversary date of the issuance of the bond (as evidenced on the WSC Internal Review report), the adequacy thereof by reference to the highest required net capital during the immediately preceding twelve-month period, which amount shall be used to determine minimum required coverage for the succeeding twelve-month period. Any adjustments will be made not more than 60 days after the anniversary date of the issuance of the bond. The Company will report any cancellation, termination, or substantial modification to FINRA within ten business days of such occurrence.

## 10.10 Preservation of Records

The Company, or its clearing agent, as applicable, shall preserve for a period of not less than six (6) years, the first two (2) years in an easily accessible place, the following records:

1. Blotters (or other records of original entry);

2. Ledgers (or other records) reflecting all assets and liabilities, income and expense and capital accounts;

3. Ledger accounts (or other records) itemizing separately as to each cash and margin account of every customer and of the Company, all purchases, sales receipts and deliveries of securities and commodities for such accounts and all other debits and credits to such accounts; and

4. A securities record or ledger reflecting separately for each security as of the clearance dates all "long" or "short" positions carried by the Company for its account or for the accounts of its customers or others and showing the location of all securities long and the offsetting position to all securities short, and in all cases the name or designation of the account in which each position is carried.

The Company or its clearing agent, as applicable, shall preserve for a period of not less than three (3) years (municipal records 4 years), the first two (2) years in an accessible place, the following records:

1. Ledgers (or other records) required to be made pursuant to 1934 Act Rule 240.17a-3(a)(4);

2. Memoranda of brokerage orders required to be made pursuant to 1934 Act Rule 240.17a-3(a)(6) through the HTS system and/or paper tickets;

3. Memoranda of purchases and sales required to be made pursuant to 1934 Act Rule 240.17a-3(a)(7);

4. Copies of confirmations of all purchases and sales of securities required to be made pursuant to 1934 Act Rule 240.17a-3(a)(8) through the HTS system;

5. Records of each cash and margin account with the Company required to be made pursuant to 1934 Act Rule 17a-3(a)(9);

6. Records of all puts, calls, spreads and other options required to be made pursuant to 1934 Act Rule 17a-3(a)(10);

7. All checkbooks, bank statements, canceled checks and cash reconciliations;

8. All bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Company;

9. Originals of all communications received, and copies of all communications sent by the Company relating to its business (including inter-office memoranda and communications);

10. All trial balances, computations of aggregate indebtedness and net capital (and accompanying working papers), financial statements, branch office reconciliations and internal audit working papers relating to its business;

11. All guarantees of accounts and all powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account and copies of resolutions empowering an agent to act on behalf of a corporation;

12. All written agreements (or copies thereof) entered into by the Company relating to its business, including agreements with respect to any account;

13. Records which contain the information required by 1934 Act Rule 17a-4(b)(8) in support of amounts included in the report prepared as of the audit date on Form X-17A-5 Part II or Part IIA; and

14. With respect to broker-dealers subject to the requirements of 1934 Act Rule 15c3-3 concerning physical possession or control of fully paid and excess margin securities, a current and detailed description of the procedures followed by the Company to comply with the possession or control requirements of Rule 15c3-3.

The Company shall preserve, during its existence and that of any successor enterprise, all articles of incorporation or charter documents, minute books and stock certificate books.

The Company, or its clearing agent, as applicable, shall also preserve, for a period of not less than six (6) years after the closing of any customer's account, any account cards or records which relate to the terms and conditions with respect to the opening and maintenance of such account.

The Company shall also maintain and preserve in an easily accessible place:

1. Questionnaires or applications for employment executed by each "associated person" of the Company, which questionnaires or applications shall be approved in writing by an authorized representative of the Company and contain at least the information required by 1934 Act Rule 17a-3(a)(12), until at least three (3) years after the "associated person" has terminated his or her employment and any other connection with the Company;

2. All records required pursuant to 1934 Act Rule 17f-2(d) until at least three (3) years after the termination of employment or association of all persons required to be fingerprinted thereunder;

3. All records required pursuant to 1934 Act Rule 17f-2(e) for the life of the enterprise; and

4. Copies of all Forms X-17F-1A filed pursuant to 1934 Act Rule 17f-1 (Reporting and Inquiry for Missing, Lost, Counterfeit, Stolen Securities), all agreements between reporting institutions regarding registration or other aspects of Rule 17f-1, and all confirmations or other information received from the SEC or its designee as a result of any inquiry relating thereto, for three (3) years.

It shall be the responsibility of Morris Monroe to maintain the appropriate books and records as set forth herein and to retain said records in accordance with the provisions of SEC Rules 17a-3 and 17a-4.

### 10.10.1 Amendments to SEC Rule 17a-3 and 17a-4

The Securities and Exchange Commission adopted amendments to Rules 17a-3 and 17a-4 [17 CFR 240.17a-3 and 240.17a-4] under the Securities Exchange Act of 1934 [17 U.S.C. 78, et seq.] on October 26, 2001. The amendments clarify and expand recordkeeping requirements with respect to purchase and sale documents, customer records, associated person records, customer complaints, and certain other matters, and require broker-dealers to maintain or promptly produce certain records at each office to which those records relate. The effective date of the amendments to Exchange Act Rules 17a-3 and 17a-4 is May 2, 2003.

The amendments expand and specify minimum requirements with respect to the records that broker-dealers must make, and how long those records and other documents relating to a broker-dealer's business must be kept. The amendments include the following:

* **The definition of "office."** The amended rules define "office" as locations where one or more associated persons regularly conduct a securities business. The final rules provide that instead of maintaining records at a particular office, a broker/dealer may choose to produce records promptly upon request at the office to which the records relate or at another place as agreed to by the regulator. A broker/dealer is not required to maintain records at an office that is a private residence if only one associated person (or multiple associated persons if members of the same immediate family) regularly conducts business at office, the office is not held out to the public as an office, and neither customer funds nor securities are handled at the office. Instead, records pertaining to private residence offices may either be maintained at another location within the state of the office at the broker/dealer’s choosing or be produced promptly at an agreed upon location. The records that broker/dealers must create as to each office include blotters, order tickets, customer account records, records with respect to associated persons, customer complaints, records evidencing compliance with SRO rules with regard to communications with the public, records of persons who can explain the information in the broker/dealer’s records, and records of each principal responsible for establishing record keeping compliance procedures.

**Customer Account Records -** New Rule 17a-3(a)(17) requires the Company to create, for each account with a natural person as a customer or owner, an account record containing information prescribed by the rule. Broker/dealers have three years from May 2, 2003, to obtain and furnish customers with account record information for accounts in existence on May 2, 2003. This rule also states that the requirement does not apply in situations where: (1) accounts are not subject to the SRO requirements; or (2) accounts have been inactive for 36 months. Also effective May 2, 2003, each new customer of the Company must receive a copy of their new account information within 30 days after becoming a customer and every 3 years thereafter. The Company will provide this via a letter (and/or email if customer disclosed their email address on the new account form) with the applicable merged fields from our customer database and maintain the date the letter was sent in the customer record of the database. Returned forms will be updated in the system and filed in the customer file.

**Order Tickets -** Rules 17a-3(a)(6) and 17a-3(a)(7) were amended to require that order tickets identify the time the order was received, even if subsequently executed; the identity of each associated person responsible for the account, if any; and any other person who entered or accepted the order on behalf of the customer, or, if applicable, a notation that a customer entered the order on an electronic system. The Company’s order ticket information is generated by a report through the clearing firm’s system and maintained in a ticket file. The time the order is received is typically the time the order is entered, however, if there is a different time, it will be entered on the ticket report. The person who entered the order is maintained electronically in the HTS system.

**Associated Persons Records -** To help regulators identify associated persons and where they work, amendments to Rule 17a-3(a)(12) require broker/dealers to create records of all offices at which each associated person regularly conducts business as well as of all identification numbers assigned to the associated person. All applicable information will be maintained at each branch office.

**Communications with the Public -** Under new Rule 17a-3(a)(20), broker/dealers are required to make records that demonstrate compliance with applicable federal regulations and SRO rules on communications with the public that require principal approval.

**Record Maintenance -** Amendments to Rule 17a-4 clarify the periods of time that records described in Rule 17a-3 must be maintained. The amended rules also require that broker/dealers maintain other information, including the following:

for the life of the entity, copies of Forms BD and all amendments thereto;

for three years after the date of the report, each examination report and all reports that a securities regulatory authority has requested or required a firm to create;

for three years after the termination of use, all manuals describing the firm's policies and practices with respect to compliance and supervision; and

for 18 months after the date the report was generated, reports created to review unusual activity in customer accounts.

### 10.10.2 FINRA Rule 4511 – General Requirements *(eff 12/05/11)*

Pursuant to Rule 4511, Company shall 1) make and preserve books and records as required under the rules of FINRA, the Securities Exchange Act (SEA) and the applicable SEA rules; and (2) preserve the books and records required to be made pursuant to the FINRA rules in a format and media that complies with SEA Rule 17a-4.

Additionally, Company shall preserve for a period of at least six years those FINRA books and records for which there is no specified retention period under the FINRA rules or applicable SEA rules.6 This six-year retention period is a default retention period for those FINRA rules that require firms to preserve certain books and records, but do not specify a retention period, and where there is no retention period specified under the SEA rules. In the absence of contrary guidance in a rule, if the books and records pertain to an account, the retention period is for six years after the date the account is closed; otherwise, the retention period is for six years after such books and records are made.

### 10.10.3 FINRA Rule 4512 – Customer Account Records *(eff 12/05/11)*

Company shall maintain the name of the Associated Person, if any, responsible for the account, rather than requiring the signature of the registered representative introducing the account. Where Company designates multiple individuals as being responsible for an account, Company shall maintain each of their names and a record indicating the scope of their responsibilities with respect to the account.

The following additional provisions shall apply:

* To preserve: (1) any customer account information that subsequently is updated for at least six years after that update; and (2) the last update to any customer account information, or the original account information if there are no updates, for at least six years after the account is closed.
* Company may be subject to additional recordkeeping requirements under the SEA.
* Company shall comply with the requirements of FINRA Rule 2070 (Transactions Involving FINRA Employees).

### 10.10.4 FINRA Rule 4513 – Customer Complaint Records *(eff 12/05/11)*

Company shall preserve records of written customer complaints at each office of supervisory jurisdiction (OSJ). The 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. Company may maintain the required records at the OSJ or make them promptly available at such office upon FINRA’s request. Customer complaint records shall be preserved for a period of at least four years.

**10.11 Electronic Storage**

Morris Monroe will notify FINRA prior to employing electronic storage of the Company’s books and records in an electronic storage media.

### 10.11.1 Third Party Representation

Morris Monroe will provide the representation or obtain the representation from the storage medium vendor or other third party with appropriate expertise that the selected storage media meets the following criterion. The electronic storage media must:

(A) Preserve the records exclusively in a non-rewriteable, non-erasable format;

(B) Automatically verify the quality and accuracy of the storage media recording process;

(C) Serialize the original and, if applicable, duplicate units of storage media, and time-date for the required period of retention the information placed on such electronic storage media; and

(D) Have the capacity to readily download indexes and records preserved on the electronic storage media to any medium acceptable under as required by the Commission or the FINRA.

### 10.11.2 Requirements for the Use of Electronic Storage

The Company will comply with the following requirements in the use of electronic storage media:

(i) At all times have available, for examination by the staffs of the Commission and the FINRA, facilities for immediate, easily readable projection or production of micrographic media or electronic storage media images and for producing easily readable images.

(ii) Be ready at all times to provide, and immediately provide, any facsimile enlargement which the Commission or its representatives may request.

(iii) Store separately from the original, a duplicate copy of the record stored on any medium acceptable under 240.17a-4 for the time required.

(iv) Organize and index accurately all information maintained on both original and any duplicate storage media.

(A) At all times, the Company will be able to have such indexes available for examination by the staffs of the Commission and the FINRA.

(B) Each index must be duplicated, and the duplicate copies must be stored separately from the original copy of each index.

(C) Original and duplicate indexes must be preserved for the time required for the indexed records.

(v) The company will have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to 240.17a-3 and 240.17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.

(A) At all times, the Company will be able to have the results of such audit

systems available for examination by the staffs of the Commission and FINRA.

(B) The audit results must be preserved for the time required for the audited records.

(vi) The Company will maintain, keep current, and provide promptly upon request by the staffs of the Commission or FINRA, all information necessary to access records and indexes stored on the electronic storage media; or place in escrow and keep current a copy of the physical and logical file format of the electronic storage media, the field format of all different information types written on the electronic storage media and the source code, together with the appropriate documentation and information necessary to access records and indexes.

(vii) Morris Monroe will ensure that at least one third party who has access to and the ability to download information from the Company’s electronic storage media to any acceptable medium, files the following with respect to the company’s records:

The undersigned hereby undertakes to furnish promptly to the U.S. Securities and Exchange Commission (''Commission''), its designees or representatives, upon reasonable request, such information as is deemed necessary by the Commission's or designee's staff to download information kept on the broker's or dealer's electronic storage media to any medium acceptable under Rule 17a-4.

Furthermore, the undersigned hereby undertakes to take reasonable steps to provide access to information contained on the broker's or dealer's electronic storage media, including, as appropriate, arrangements for the downloading of any record required to be maintained and preserved by the broker or dealer pursuant to Rules l7a-3 and l7a-4 under the Securities Exchange Act of 1934 in a format acceptable to the Commission's staff or its designee. Such arrangements will provide specifically that in the event of a failure on the part of a broker or dealer to download the record into a readable format and after reasonable notice to the broker or dealer, upon being provided with the appropriate electronic storage medium, the undersigned will undertake to do so, as the Commission's staff or its designee may request.

### 10.11.3 FINRA Notification

Morris Monroe or Laura Hendricks will obtain a copy of the above attestation and include it in the files of the Company and initial and date the attestation indicating review of the document.

Notifications should be sent to:

FINRA

Member Regulation

1735 K Street NW, 6th Floor

Washington, D.C. 20006-1500

### Change in Electronic Media Storage Vendor

In the event Company changes vendors for electronic storage media, the CCO will ensure Company makes the necessary FINRA electronic filing in the Gateway/ Forms and Filings/ Financial Notifications. Pursuant to SEC Rule 17a4(f)2(i), Company will file such notice 90 days in advance of such change if the vendor employs any electronic storage media other than optical disk technology (including CD-ROM).

## 10.12 Routine Data Backup

These procedures have been developed to ensure the routine protection of data. Morris Monroe will have responsibility for ensuring these procedures are followed and for the routine testing for effectiveness of the procedures. Dennis McCullough, IT Manager, is responsible for the maintenance of these back-up books and records, copying, and storing to our back-up site.

### 10.12.1 Onsite - Backup

On a daily basis, Company has a local Sonic Wall device that conducts onsite backup in real time through an agent tool installed on each server for critical data files and maintains all revisions based on storage space. This device represents the first line of defense for disaster recovery in the event a backup of data would need to be retrieved. In the event the device is not accessible due to an office disruption, the offsite data backup would be the second line of defense.

### 10.12.2 Offsite Data Backup

Company has the following offsite backup of data:

1. WinOps: Data is housed on an outside server located in Colorado via Techmate Inc. Techmate conducts daily internal backup of data in-house as well as with Symantec Backup Exec to another offsite location.

2. Company utilizes Iron Mountain and their program called LiveVault for offsite backup of crucial files for each server. Backup is automatically processed every fifteen minutes with a 30-day retention policy. LiveVault has facilities on both coasts. Company’s data is directed to one site with alternate duplication to the other site. Company has access to portal to verify said backups and conducts a review each month at a minimum.

## 10.13 Change in Ownership, Control, or Business Operations

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

Certain types of expansions are presumed not to be a "material change in business operations" and do not require FINRA approval. However, this safe harbor is not available to firms that, among other things, have a "disciplinary history" as defined in IM-1011-1. The interpretation must be consulted to determine what changes are not material and what constitutes disciplinary history precluding use of the safe harbor. If the Company operates under a Restriction Letter, it will conduct business consistent with the Letter and Compliance will contact FINRA if a change is necessary.

## 10.14 FINRA Rule 8210 & Regulatory Requests

Responses to regulatory requests may be made only by Morris Monroe or the Compliance Department. Requests received by any other Associated Persons must be directed to Compliance. Pursuant to Rule 8210, when information is provided to FINRA by portable media device, it will be encrypted by using a method that meets industry standards for strong encryption as ensured by Compliance. FINRA staff will be provided with the confidential process or key regarding the encryption in a communication that is separate from the encrypted information itself (via fax, email, letter, etc.).

## 10.15 FINRA Rule 4530 - Regulatory Disclosure Requirements (*eff 7/1/11)*

Company has adopted these procedures to comply with FINRA Rule 4530 to promptly disclose any events that fall within the requirements. Company will report specified events involving the Company or an Associated Person to FINRA via the Regulatory Filings Application on the FIMRA Firm Gateway. This is in addition to any obligation to update an Associated Person’s U-4 or U-5 or Company’s Form BD.

* 1. Company shall promptly report to FINRA, but in any event not later than 30 calendar days, after knowing or should have known of the existence of any of the following:

1. Company or an Associated Person:
2. 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. Conduct reported will be conduct that a significant monetary result with respect the Company, customers, markets, or multiple instances of any violations;
3. Is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;
4. 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;
5. Is denied registration or is expelled, enjoined, directed to cease, and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization;
6. 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;
7. 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;
8. Is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding $15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker, or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding $25,000; or
9. Is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a "statutory disqualification" as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification; or
10. An Associated Person is the subject of any disciplinary action taken by the Company 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.

(b) Company shall promptly report to FINRA, but in any event not later than 30 calendar days, after concluding or reasonably should have concluded that an Associated Person or the Company 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.

(c) Each Associated Person shall promptly report to the Company the existence of any of the events set forth in paragraph (a)(1) of this Rule.

(d) Company 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 Company.

(e) Nothing contained in this Rule shall eliminate, reduce, or otherwise abrogate the responsibilities of the Company or Associated Persons to promptly disclose required information on the Forms BD, U4 or U5, as applicable, to make any other required filings or to respond to FINRA with respect to any customer complaint, examination or inquiry. In addition, Company is required to comply with the reporting obligations under paragraphs (a), (b) and (d) of this Rule, regardless of whether the information is reported or disclosed pursuant to any other rule or requirement, including the requirements of the Forms BD or U4. However, Company need not report an event otherwise required to be reported under paragraphs (a) or (b) of this Rule if the Company discloses the event on the Form U5, consistent with the requirements of that form.

(f) Company shall promptly file with FINRA copies of the following (events already reported on Form U-4 with an affirmative request to satisfy Rule 4530 reporting requirements and FINRA findings and actions will not be reported separately):

* + 1. any indictment, information or other criminal complaint or plea agreement for conduct reportable under paragraph (a)(1)(E) of this Rule;
    2. any complaint in which Company 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 Company 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 an Associated Person 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.

(g) Company shall not be required to comply separately with paragraph (f) in the event that any of the documents required by paragraph (f) have been the subject of a request by FINRA's Registration and Disclosure staff, provided that the member produces those requested documents to the Registration and Disclosure staff not later than 30 days after receipt of such request. This paragraph does not supersede any FINRA rule or policy that requires production of documents specified in paragraph (f) sooner than 30 days after receipt of a request by the Registration and Disclosure staff.

## 10.16 Outsourcing

Some services may be outsourced to third parties (vendors). While third parties are responsible for providing agreed-upon services in an accurate manner, regulators have stated that firms remain responsible for ultimate compliance with rules governing the outsourced activity.

When choosing an outside vendor, a number of factors will be considered depending on the type of service provided. Factors that may be considered when engaging a third party include:

* Length of time in business
* Financial stability
* Prior knowledge of the vendor
* Other users of the vendor's services
* Technology and ability to deliver services
* Security of customer or other financial information and cybersecurity controls, if applicable
* Vendor's ability to retain firm records in accordance with regulatory requirements, if applicable
* Company management and Compliance is responsible for monitoring the vendor's services

Company management and/or Compliance shall review Outsourcing contracts and completed contracts will be maintained as part of Company’s records and for three years after their termination.

### 10.16.1 Cybersecurity

Company will confirm that a vendor that will have access to customer and Company records has a viable cybersecurity program to protect such information and take corrective action when there are cybersecurity breaches. Cybersecurity considerations include:

* Review of a vendor's cybersecurity program and confirmation of continuing controls and technology changes to critical systems
* Testing of system changes and capacity to detect underlying malfunctions or capacity constraints
* Encryption of confidential firm and customer data stored at the vendor or in transit between Company and vendors
* Disposal of customer non-public information
* Retention or transfer of data upon termination of vendor agreement

### 10.16.2 Books and Records

Company's records are a critical part of any outsourced vendor agreement.

* If applicable, affirm the vendor will maintain books and records in accordance with Exchange Act Rules 17a-3, 17a-4, FINRA Rule 3110(b)(4), and FINRA Rule 4510.
* Confirm records will not be deleted upon termination of the vendor's contract with Company.
* Review vendor's recordkeeping in audit programs for compliance with regulatory requirements.

## 10.17 Record Retention/Destruction Chart

It shall be the Company’s policy to follow the record retention requirements outlined below. All such records will then be destroyed upon expiration of such holding periods.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **IRS**  **# Yrs.** | **SEC**  **# Yrs.** | **Ready**  **Access** |
| **Accounting Records** | | | |
| Bank Statements, deposit slips | 4 | 3 | 2 |
| Commission Records and 1099s | 4 | 3 | 2 |
| Trial Balances | 3 | 3 | 2 |
| Checks and reconciliations | 8 | 3 | 2 |
| Payroll Reports (individual reports and earnings records) | 8 | 3 | 2 |
| Payroll Records (1099s, W-4s, W-2s) | 4 | 3 | 2 |
| Vouchers (for payment to vendors, employees, bills rec’d & pd) | 8 | 3 | 2 |
| Audit Reports and Financial Statements | P | 3 | 2 |
| General Ledgers and Journals | P | 6 | 2 |
| Records in support of audit (Focus IIA, etc.) |  | 3 | 2 |
| Aggregate Indebtedness computation |  | 3 | 2 |
| Net Capital computation (and working papers) |  | 3 | 2 |
| Internal Audit working papers |  | 3 | 2 |
| Subordinated Loans |  | 3 | 2 |
| Focus Reports |  | 3 | 2 |
| SIPC, FINRA, MSRB Assessments |  | 3 | 2 |
| Monies borrowed and monies loaned | 6 | 3 | 2 |
| Corporate Records | | | |
| Bylaws, charters and minute books | P | P | P |
| Capital Stock and Bond records | P | P | P |
| Expired mortgages, notes, and leases | 8 | 3 | 2 |
| Checks (taxes, property and fulfillment of important contracts) | P | 3 | 2 |
| Contracts and Agreements | P | 3 | 2 |
| Retirement and Pension records | P | 3 | 2 |
| Tax returns and supporting documents | P | 3 | 2 |
| **Compliance Records** | | | |
| New Account Forms (must be kept 6 years after closing date) |  | 6 | 6 |
| Lost and Stolen Security Agreement |  | 3 (P) | 3 (P) |
| Confirmations |  | 3  Muni 4 | 2 |
| Cash and Margin Acct Records (cash receipts and disbursements) |  | 6 | 2 |
| Branch Office Exam Reports |  | P | 2 |
| Customer Complaint File |  | 4 | 4 |
| General Correspondence |  | 3 | 2 |
| Legal and Tax | P | P | 2 |
| Order Tickets |  | 3  Muni 4 | 2 |
| Extensions and Requests |  | 3 | 2 |
| List of Personnel, RRs, and assigned Principal |  | 3 | 2 |
| List of branch offices and OSJs |  | 3 | 2 |
| Litigation File |  | P | P |
| Fidelity Bond |  | P | P |
| 144 Sales File |  | 3 | 2 |
| Retail & Institutional Communication, Correspondence |  | 3 | 2 |
| Underwriting/Distribution Files |  | 3 | 2 |
| Selling Agreements |  | 3 | 2 |
| Clearing Agreements |  | P | P |
| Written Supervisory Procedures |  | P | P |
| Designation of Accountant 17a-5 and Amendments |  | P | P |
| Private Securities Transactions (approvals, correspondence, etc) |  | 3 | 2 |
| Transactions with employees of other broker/dealers |  | 3 | 2 |
| Customer account reviews |  | 3 | 2 |
| Reports for Unusual Activity in Customer Accounts |  | 18 mo. | 18 mo. |
| Gifts & Gratuities |  | 6 | 2 |
| AML and related records |  | 5 |  |
| Clock Synchronization records |  | 3 | 2 |
| Personnel Records | | | |
| U-4, U-5, Employee and RR Agreements |  | 3 yrs. after termination | Access now |
| Fingerprints or CRD notices |  | 3 yrs. after termination | Access now |
| All claimed fingerprint exemptions |  | 3 yrs. after termination | Access now |
| CRD U-4 Status Report |  | 3 yrs. after termination | Access now |
| U-5 Status Report |  | 3 yrs. after termination | Access now |
| Employment Applications |  | 3 yrs. after termination | Access now |
| Regulatory | | | |
| **FINRA:** |  |  |  |
| Restriction Letter |  | P | P |
| Exit Interview |  | P | 2 |
| Exam Letters |  | P | 2 |
| Disciplinary Action |  | P | P |
| Original Application |  | P | 2 |
| Assessment File |  | P | 2 |
| Correspondence |  | P | 2 |
| **SEC:** |  |  |  |
| Order granting registrations |  | P | P |
| Original Application |  | P | 2 |
| SEC Form BD and Amendments |  | P | 2 |
| 17 A-11 violations |  | P | 2 |
| Correspondence |  | P | 2 |
| **State (by State Registration):** |  |  |  |
| Original Paperwork |  | P | P |
| Correspondence with States |  | P | 2 |
| State License or CRD Notice granting registration |  | P | P |
| Disciplinary Actions |  | P | P |
| **Market Making** (currently Not/Applicable) | | | |
| 15c2-11 files (current financial information on stocks a firm has market in) |  | 3 | 2 |
| 15c2-6 Letters and authorizations |  | 3 | 2 |
| SOES Registration |  | P | P |
| **Municipals** | | | |
| Designation of supervisory principal under MSRB rules |  | P | P |
| Payment of Initial MSRB fees and all renewals |  | P | P |
| Customer Complaints |  | 6 | 2 |
| **Options** | | | |
| Retail Communication |  | 3 | 2 |
| Customer Complaint file or log |  | P | P |
| Option exercise procedure (carried by clearing firm) |  | P | P |
| **Private Placements** | | | |
| Subscription Documents |  | 6 | 2 |
| Subscription Log |  | 6 | 2 |
| Offering Memorandum |  | 6 | 2 |
| Escrow Account Agreement |  | 6 | 2 |
| Copy of Escrow Bank Account Statements |  | 6 | 2 |
| Correspondence |  | 6 | 2 |
| Offering (Issuer) files |  | 6 | 2 |
| Due Diligence |  | 6 | 2 |
| Selling Agreement |  | 6 | 2 |
| Dealer/Manager Agreement |  | 6 | 2 |
| Blue Sky Information |  | 6 | 2 |
| Form D |  | 6 | 2 |

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# 11. INVESTMENT COMPANY SALES ACTIVITIES

## 11.1 Introduction

This chapter includes policies and procedures for investment company products (mutual funds, closed-end funds, unit investment trusts (UITs), exchange-traded funds, etc.). The initial section includes mutual funds. The initial section addresses mutual funds. It shall be the responsibility of Morris Monroe and/or his designee to conduct a review, no less than annually, of these procedures to ensure regulatory compliance as well as to ensure proper procedures are being followed.

References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

Key points for consideration when offering mutual funds include the following:

* RRs must consider sales charges when recommending mutual funds and determine the most advantageous cost structure for the customer including class types.
* Customer BI determination includes consideration of investment objectives, other investments held, financial and tax status, and risk tolerance.
* Fund characteristics to consider include investment objectives, risk, cost structure, and underlying investments and strategies.
* RRs cannot "sell dividends" or facilitate customer "late trading" or "market timing."
* Required disclosures are included in prospectuses or summary prospectuses (open-end funds only) which must be provided to purchasers.
* Some mutual funds may be purchased via "check and app" that are held by mutual fund companies. RRs are responsible for making Reg BI-compliant recommendations and confirming discounted sales charges are applied.

It is the Company's position that trading in mutual fund shares, on a short- term basis is an improper sales practice.

It shall be a policy of the Company that since mutual funds are designated as long-term investments rather than vehicles for quick, speculative profit making, Associated Persons are to be discouraged from switching a customer from one mutual fund family to another. However, in an effort to better monitor investment company activity, the Company is promoting the use of selected funds that can be accessed via DSTVision where redemptions and purchases can be viewed. In addition, further monitoring is conducted when reviewing the daily blotters.

In addition, no Associated Person may recommend that a customer switch from one mutual fund to another except in rare circumstances where there has been a change in the customer's investment objectives and the investment objectives of the fund into which the customer is switching meets his changed needs and objectives. An Associated Person should not recommend a "switch" just on the basis of individual fund performance or management capabilities. Further, Morris Monroe or the designated principal or their designee shall review mutual fund transactions on a daily basis to ensure no sales of mutual funds are made based upon dividend expectation.

Where a customer, on his own initiative, and without any solicitation by the Associated Person, decides to effect a change of investment, such transaction will be processed in a non-solicited nature of the request. Should multiple customers of an Associated Person make such a request within a 60-day period, Morris Monroe or designated principal shall be responsible for contacting such customers to assure that the transactions were in fact unsolicited.

Any transaction that is found not to comply with the foregoing requirements will be reversed, with a full charge‑back of commissions against the Associated Person's commissions earned.

## 11.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principal |
| **Statutes** | * SEC Rule 17a-3 and 17a-4 – books and records (34 Act Section 240) * FINRA Rule 2830(k) and SEC Rule 12b-1 – Anti-Reciprocal Rule * FINRA Rule 2830(d) – Sales Charges, ROA * FINRA Rule 2830(m) – Prompt transmission of applications and pmt.  FINRA Rule 2342 - Breakpoints |
| **Frequency** | * As required * Daily trade blotters * Annual training |
| **Actions** | * Review information on mutual funds * Determine which fund companies' products to offer * Execute dealer agreements with mutual fund companies * Review any applicable advertising or sales literature * Provide education regarding mutual fund sales including prohibitions under the anti-reciprocal rule and review for violations * Develop and provide applicable disclosures to customers regarding mutual fund purchases * Review order records, including charges and discounts * Provide training to Associated Persons on mutual fund purchases |
| **Records** | * Selling Agreements * Trade blotters * Checks received and forwarded blotter * Customer account documents * Any retail communications, and correspondence * Training records |

## 11.3 Dealer Agreements

Company executes dealer agreements with mutual fund underwriters. Many agreements include restrictions against activities such as late trading or market timing, which are discussed later in this chapter. Any special requirements or restrictions included in dealer agreements and not already covered in this chapter will be communicated to sales personnel. Company maintains records of dealer agreement arrangements. Associated Persons may only sell mutual funds in which the Company has such agreement or through its clearing firm who maintains such agreements.

## 11.4 Anti-Reciprocal Rule

Company is prohibited from favoring the sale of mutual funds based on revenues earned (directly or indirectly) from the investment company issuing the mutual fund. This includes:

* *Directed brokerage,* which is a practice where the investment company directs brokerage business to a broker-dealer to reward or compensate the dealer for selling its funds. This includes, directly referring brokerage transactions to the dealer that sells its funds and also "step-out" arrangements where brokerage is directed to another firm and then revenue is shared with the dealer selling the funds.
* *Undisclosed revenue sharing,* where the mutual fund company pays incentives to the broker-dealer to secure a prominent place in the selling dealer's distribution network ("shelf space").

If any Company person becomes aware of a prohibited activity, it should be reported immediately to Compliance.

The selection and offer of mutual funds will comply with anti-reciprocal prohibitions. Specifically, Company will not:

* Sell shares of, or act as underwriter for, any investment company where Company is aware that the investment company or its investment adviser or underwriter have directed brokerage arrangements in place that are intended to promote the sale of investment company securities.
* Favor or disfavor sales of investment companies based on commissions received or expected and tied to sales;
* Require such commissions to sell the funds or offer commission to another broker-dealer relating to their sale of funds;
* Circulate information about commissions received from an investment company, other than to senior managers for purposes of managing Company's business;
* Sponsor or encourage an incentive campaign or special sales effort of another dealer financed by commissions received related to the sale of the funds;
* For retail sales, provide incentive or special compensation based on the amount of commissions expected to be received from the fund or another source;
* Establish recommended, selected, or similar preferred lists of investment companies if based on brokerage commissions;
* Allow Associated Persons and other sales personnel to participate in commissions received from investment company portfolio transactions; and
* Use the sale of investment company shares to negotiate the price or amount of brokerage commissions paid on investment company portfolio transactions.

These prohibitions do not prevent execution of investment company portfolio transactions that are not tied to sales of the investment company's shares. Associated Persons and managers may be compensated for sales attributable to them including the use of overrides, accounting credits, or other compensation, provided the extra compensation does not violate anti-reciprocal prohibitions.

## 11.5 Retail Communications

All Investment Company retail communications must be reviewed and approved by Morris Monroe or the designated supervisor prior to use. Typically investment company retail communication will have to be filed with FINRA along with the applicable filing fee. Associated Persons may use materials provided by the fund or Company approved materials. Any other retail communications must be approved by the designated supervisor or Compliance prior to use.

Material provided by outside (third) parties such as newspaper or magazine articles, books or pamphlets, handouts, and other third-party provided material **must be reviewed and approved by Compliance prior to use**. Materials made available by Company may be presumed to have been reviewed and approved. Some sales material requires the prior approval of FINRA.

The following guidelines apply when using third-party material:

* Associated Persons may **not** suggest or infer that they authored investment-related books, articles, or other sales material not written by them.
* If Company or Associated Person has paid for the publication, production, or distribution of any communication that appears to be a magazine, article or interview, then the communication must be clearly identified as an advertisement.
* Material may **not** include titles other than those normally conferred by Company (account executive, financial consultant, *etc.*) unless previously approved by Compliance. Associated Persons particularly may **not** use titles inferring expertise in dealing with senior investors.

**Disclosure of Material Facts**

FINRA has stated that there are material facts that should be disclosed to a customer when recommending a mutual fund. Items to be disclosed, if applicable or appropriate, include:

* the fund's investment objective
* the fund's portfolio
* historical income or capital appreciation
* the fund's expense ratio and sales charges
* risks of investing in the fund relative to other investments
* the fund's hedging or risk management strategy
* information regarding the structure of multi-class and master-feeder funds sufficient so the customer may understand and evaluate the structure
* potential tax consequences including tax on distributions and capital gains subject to tax
* potential risks if a fund invests in financial derivatives
* if an expense ratio is represented as an advantage of a particular fund, it is explained in the context of and compared with other mutual fund expense ratios

The mutual fund’s prospectus generally includes many if not all of these disclosures.

## 11.6 Prompt Transmission of Applications and Payment

For applications on a subscription-way basis, Associated Persons are obligated to promptly transmit mutual fund (and variable annuity) applications and customer payments to the designated office/principal. Principal shall perform a review and issue an approval (or disapproval) within 7 business days after receipt of a complete and correct package at the OSJ. Subsequently, the application and check shall be forwarded **on the same day as they are approved or by noon the following business day when accompanied with a payment**. Failure to transmit applications and payments promptly is a violation of FINRA rules. Associated Persons who do not comply with prompt transmission requirements may be subject to disciplinary action. All applications and payments must be forwarded to the respective back office for handling and processing.

## 11.7 Closed End Funds

Closed-end funds are investment companies that issue a finite number of shares that trade in the open market, usually on a stock exchange. Because they trade like other stocks, requirements that apply to open-end mutual funds such as switch letters and prospectuses provided to all purchasers generally do not apply to closed-end funds. Certain features of mutual funds such as breakpoints, letters of intent, and rights of accumulation are not features of closed-end funds. As for all security recommendations, however, Associated Persons are responsible for making BI determinations prior to making a recommendation to a customer.

## 11.8 Unit Investment Trusts (UITs)

UITs are investment company securities that invest in a fixed portfolio of securities such as corporate, municipal, or government bonds, mortgage-backed securities, common or preferred stock, or other investment company shares. Unit holders receive an undivided interest in both the principal and the income portion of the portfolio in proportion to the amount of money invested. UITs have a finite life that ends when all securities in the portfolio have matured or are liquidated per the terms of the trust.

RRs are responsible to making a BI determination prior to recommending a UIT to a customer. Considerations include the types and safety of securities in the UIT, call features of the trust, and the maturity date for the trust. The length of time the investor intends to hold the investment should be considered when recommending a UIT, since a secondary market for the UIT may not be assured and prices available in the secondary market may vary considerably from the liquidation value of the trust.

UITs impose sales charges including front-end and back-end loads and management fees. In addition, like mutual funds, discounts may be available through breakpoints, letters of intent, and rights of accumulation. Some UIT sponsors offer rollover and exchange discounts for purchases made with the proceeds from a UIT originally purchased from the same sponsor as well as UITs purchased from a different sponsor. RRs are required to consider charges and discounts available to determine that the customer will receive the best available price.

While UITs are not "mutual funds," they have some features similar to mutual funds, particularly in the initial offering of a UIT. The purchaser of a new UIT pays a load or other charges as described in the prospectus. Purchasers are provided a prospectus describing the UIT. A secondary market exists for many UITs. Investors may liquidate or purchase a UIT by placing an order to sell or buy it in the secondary market if one exists. The price the investor pays to purchase in the secondary market may include a premium based on the market value of the securities in the portfolio. The customer may not recover that amount when the trust matures or is called.

Prospective UIT investors must not be misled regarding the potential return of UITs purchased in the secondary market. Any communication regarding the estimated current return should be accompanied by a quotation of the UIT's long-term yield or internal rate of return. Secondary market purchasers will be provided a copy of the UIT prospectus at time of purchase.

**Sales Charges and Discounts** **-** RRs are responsible for understanding the proposed investment and related sales charges and available discounts and inform customers. There is an initial sales charge applied to the purchase and many UITs assess a deferred sales charge. The deferred sales charge is generally deducted in periodic installments following the end of the initial offering period. Many UITs assess a creation and development fee that compensates the UIT sponsor for creating and developing each UIT, including determining the UIT's investment objectives, selecting portfolio securities and other administrative functions. This fee is deducted at the end of the initial offering period.

Typical discounts include:

* Discounts based on the size of a single transaction (price breaks or breakpoints)
* Rights of accumulation
* Rollover or exchange discounts that provide a reduced sales charge

## 11.9 Exchange Traded Funds (ETFs)

An ETF is a type of exchange-traded investment product that must be registered as an investment company under the Investment Company Act of 1940 and as a security under the Securities Act of 1933. An ETF is a method for investors to pool their money in a fund that makes investments in stocks, bonds, or other assets. Retail investors may purchase and sell ETF shares only in market transactions (*i.e.,* they may not purchase from the sponsor). ETF sponsors enter into contractual relationships with one or more financial institutions known as "Authorized Participants" (APs) which typically are large broker-dealers. Only APs may purchase and redeem shares directly from the ETF, and they do so in large aggregations or blocks (*e.g.,* 50,000 ETF shares) called "Creation Units."

A typical ETF is based on specific domestic and foreign market indexes. An index-based ETF tracks the performance of an index by holding in its portfolio either securities replicating the index or a representative sample of the securities in the index. ETFs also track non-traditional investments such as commodities and currencies. Some ETFs track indexes inversely (*i.e.,* the ETF rises when the index falls) and new ETFs are continually evolving. Some ETFs are actively managed and not based on a market index.

Following are considerations when recommending ETFs:

* Recommendations must consider what the ETF tracks to determine BI for the proposed investor.
  + Where a commodity such as oil underlies the fund, it is important that the customer understands how the ETF is impacted by changes in price of the underlying commodity.
  + ETFs that track narrow sector or foreign market indexes can be highly concentrated and highly volatile or might fail to track their indexes properly. They also may have higher fees than ETFs based on broader indexes.
  + An ETF that invests in a sampling of the tracked index may not perform consistent with the index.
* Some ETFs sell short, others use leverage, and others use a combination of the two. Some ETFs are more complex financial instruments that offer leverage or are designed to perform inversely to the index or benchmark they track, or both. Leveraged ETFs amplify daily index moves; short selling provides the inverse daily return of market indexes. Targeted leverage levels don't necessarily meet targets over long periods due to compounding returns. Investors in these types of ETFs must be willing to assume higher risk.
* Some inverse ETFs track broad indices, some are sector-specific, and still others are linked to commodities or currencies.
* Most leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. The effect of compounding affects their performance over longer periods of time when their performance can differ significantly from the underlying index or benchmark during the same time period. Volatile markets can magnify this effect.
* ETFs are not suitable for a customer who wants to make regular periodic investments since each transaction will generate a commission cost. ETFs are more appropriate for larger lump-sum investments.
* Some ETFs allow investors to cash out their investment with the issuer.
* ETFs may be subject to temporary price disparities during times of highly volatile markets when ETF shares may trade for significantly less than the value of underlying assets. This risk is of particular concern to short-term traders.
* ETF shares can be sold short and bought on margin.
* For most ETFs, holdings are transparent, *i.e.,* an investor will know what is being held by the ETF by the makeup of the tracked index. However, in the case of an actively managed ETF, knowledge of investments may not be available to investors.
* ETFs may have lower annual expenses than traditional funds; however, investors incur commission costs for each purchase and sale in the market.
* ETFs may be more tax efficient than regular mutual funds. Since shares are traded in the secondary market, the ETF is not required to liquidate its portfolio to satisfy fund sales and therefore reduces generation of capital gains distributions to investors that result in tax liabilities each year.
* ETFs do not offer dividend reinvestment plans which are available from regular mutual funds.

## 11.10 FINRA Rule 2342-Breakpoints and Sales Charges

Further, it shallbe a policy of the Company to prohibit the sale of mutual fund shares or UITs to prospective investors for an amount just below the point at which sales charges are reduced on quantity transactions unless the customer has been made aware of the economic consequences of such a purchase. Associated Persons are required to advise customers of the savings available in a purchase above the breakpoint.

Mutual funds allow investors to purchase funds directly (sometimes called "application way" or "wire order" purchases or accounts). In these instances RRs may complete paper account forms and the customer signs the form, writes the check, and sends the application and payment to the investment company. RRs may also use Firm (or clearing firm) systems to send customer funds electronically to the investment company. RRs are responsible for ensuring available discounts/fee waivers are applied to the purchase.

Where an application for a purchase is submitted which may raise a breakpoint question either with respect to the current purchase itself, or in conjunction with prior purchases, and in all cases purchases that are $50,000 or greater, the designated principal at each OSJ shall be responsible for making an investigation, based on the information available from the prospectus, the customer's client file, account statements, and if through the clearing firm, the status and history to review the circumstances of such sale(s), including, where necessary, communication with the customer. Should the situation warrant, Morris Monroe shall take remedial action on behalf of the Company.

Mutual funds follow different rules to determine the value of existing holdings and when a customer qualifies for a breakpoint discount. Most funds use current net asset value (NAV) of existing holdings, and a small number of funds use historical cost (cost of the initial purchase). If historical cost is used, it may be necessary for the investor to provide account records to qualify for the breakpoint discount.

A Breakpoint Search Tool is available from FINRA online. The tool provides breakpoint schedules and linkage rules for mutual funds with sales charges [<http://www.finra.org/fundsearch>]

General Guidelines:

It shall be a policy of the Company for representatives to disclose to customers the breaks in sales charges or price breaks and to ascertain the proper sales charge applied due to:

* Letters of intent;
* Rights of accumulation;
* Multiple purchases by the customer in the same fund family on the same day;
* Purchases of shares of different, but similar funds;
* Aggregation of prior purchases of the same fund in the same account;
* Waivers available for repurchasing fund shares;
* Exchanging shares for another fund in the same fund family; and
* Amounts just below the breakpoint level, when funds are available to meet the breakpoint discount.

## 11.11 Letters of Intent

Most mutual fund companies allow a sales charge discount if the investor states his intent to purchase a specified minimum number of shares over a period of time (letter of intent). Associated Persons must explain the term LOI to the customer and ascertain whether the customer wishes to participate in this option. Fund applications, direct or electronic, provide a section for this option to be completed if applicable. In addition, most companies allow customers to aggregate purchases made, looking back 90 days to achieve quantity discounts (Retroactive Letter of Intent). Associated Persons must also ascertain from the customer if this option is applicable to their transaction(s).

## 11.12 Rights of Accumulation

Most mutual fund companies permit an investor to aggregate shares owned in related accounts in some or all funds in the fund family to reach a breakpoint discount. Funds typically allow investors to aggregate fund shares owned by a person or a group of persons related to the investor (family or same household or members or members of certain organizations). This option also gives a fund shareholder the ability to have earlier purchases of shares of funds in his/her accounts and in related accounts count towards the reduction of the sales charge on a current purchase. Note that some customers may decline to divulge such information; however, the Associated Person must make a reasonable effort to obtain such information. Some examples of ways that funds allow share purchases to be combined include:

* aggregation with prior A share purchases;
* aggregation with prior purchases of all share classes;
* aggregation with holdings of a spouse and minor children;
* aggregation with holdings of others (including one’s grandchildren or domestic

partner);

* aggregation with purchases in certain trust accounts;
* aggregation with the purchase of variable annuities; and
* aggregation with holdings in other accounts, such as IRA accounts and 529

Plans.

Letters of intent and rights of accumulation may be combined for further benefits. A customer may also receive a breakpoint discount on a single transaction that meets a breakpoint.

## 11.13 Exchange Transactions

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

Time frame (i.e. shares must be held for at least one day prior to the exchange);

Exchanges may be limited to the same class of fund previously held;

Exchanges may be limited to a maximum number per year; and

Fees may be charged for certain exchanges.

Associated Persons must ascertain whether a transaction meets any of the above conditions to determine whether a waiver of any sales charge is applicable.

## 11.14 Same Day Transactions

A review of transactions on the same day must be reviewed by the Associated Person to ascertain the sum of those transactions toward a possible breakpoint.

Further it shall be the responsibility of the designated principal at each OSJ to review mutual fund transactions to make sure that such notifications have been made by registered representatives and review such transactions to ensure proper break points are credited to a customer's account(s) in the event they are applicable.

## 11.15 Selling Dividends

In presenting investment recommendations to clients, the Associated Person will be careful not to “sell dividends.” This is the practice whereby a representative uses the fact that the fund in question is about to pay a dividend as a selling point. In reality, the majority of the dividend is already reflected in the fund’s price and will only be a return of principal to the investor when paid because the fund’s Net Asset Value will be reduced by the amount of the dividend. In addition, the dividend payment will be a taxable event for the client, even though he/she received no economic benefit from it.

## 11.16 Processing Orders

All mutual funds orders, whether through the clearing firm or direct, subscription-based purchases, must go through the trading/back office department. No Associated Person may enter an order directly unless authorized to do so as a backoffice function or by the principal. No clearing firm order may be entered through HTS after 3:00 pm central time to avoid market timing and violation of FINRA Rule 2010. In addition, the HTS system prohibits a trade from being entered after that time as an additional prevention, or if entered will be conducted the next business day. However, any violation of such after-market orders is reason for immediate termination. Additionally, it shall be a policy of the Company that where a mutual fund is handled on a subscription basis, all applications and customer checks shall be forwarded by the following business day to the Issuer. The designated principal at each OSJ shall be responsible for reviewing their respective cash receipts and delivered blotter to ensure that all customer checks are promptly forwarded to their recipients and that all customer mutual fund applications are promptly forwarded to their respective Issuer.

## 11.17 Contingent Deferred Sales Charge (“CDSC)

In addition to the requirements for disclosure on written confirmations of transactions contained in Rule 2230, if the transaction involves the purchase of shares of an investment company that imposes a deferred sales charge on redemption, such written confirmation shall also include the following or similar legend: “On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus.” Consistent with the confirmations generated by Hilltop Securities, the legend shall appear on the front of the client confirmation.

## 11.18 Sales of Mutual Funds under Multiple Class Pricing

As mutual funds are being offered pursuant to an increasing variety of sales charges and distribution/service fees, it is important for the associated person and the customer to not only choose a mutual fund that best suits the customer’s investment objectives, but also to choose the sales financing method which best suits his/her particular situation. Typically, fund families offer three classes of shares which are described below:

Class A Shares: Subject to front-end load and, for most funds, a distribution/service fee of up to 0.50% per annum of the fund’s daily net assets attributable to Class A shares. Purchases of $1 million or more and purchases by certain retirement plans are at net asset value (“NAV”) subject to one year, 1.00% CDSC.

Class B Shares: Are typically subject to a declining CDSC for six years and a distribution /service fee of up to 1.00% per annum of the fund’s average daily net assets attributable to Class B shares. In some cases, Class B shares convert into Class A shares after a specific time period. Thereafter, ongoing charges are equal to Class A. **The Company has a policy that no Associated Person will sell a B share without prior approval by Morris Monroe. Any violation will result in a cancellation of the order with full recourse to the customer, a possible fine and/or termination of the Associated Person** *(eff 12/20/07)***.**

Class C Shares: Subject to a one year, 1% CDSC and an ongoing distribution/service fee of up to 1.00% per annum of the fund’s daily net assets attributable to Class C shares. Class C shares do not convert into Class A shares and are therefore subject to the Class C distribution/service fee indefinitely.

Class D Shares: Usually no-load shares available through mutual fund supermarkets with possible transaction and other fees.

Class R shares: Created for retirement plans and available through an employer-sponsored retirement plan and with a wide range of fees.

In addition, some mutual funds offer other classes that impose no front-end or back-end sales charges and relatively low asset-based fees. These may be offered to limited types of purchasers such as retirement plans or institutional investors.

Associated persons, in assisting a customer in choosing a particular class of shares, should consider all relevant facts and circumstances, including, but not limited to: (a) the amount of money to be invested initially and over a period of time; (b) the current level of front-end sales load, CDSC and distribution/service fees imposed with respect to a particular class by the fund; and (c) any other relevant circumstances, such as the availability of purchases under letter of intent or pursuant to rights of accumulation or the availability of CDSC waivers upon redemptions of shares.

General Guidelines: There are instances where one method may be more advantageous than other alternative methods. For example, investors who would qualify for significant discount on a front-end sales load may determine that a Class A purchase is preferable to payment of either (i) any applicable CDSC imposed upon the redemption of Class B shares and the higher Class B distribution/service fees (which are imposed during the period prior to the conversion of Class B shares to Class A shares) or (ii) any applicable CDSC imposed upon the redemption of Class C shares and the higher Class C distribution/service fees (which are imposed indefinitely).

On the other hand, a customer whose order would not qualify for such a discount may wish to defer the sales load and have all his funds invested in Class B or Class C shares initially. If such a customer anticipates that he or she will redeem his or her shares within the first six years, the customer may determine that a Class C share purchase is preferable since there is no front-end sales load or CDSC after the first year.

In addition, customers who intend to hold their shares for a significant period of time should consider purchasing Class A shares since Class C shares pay ongoing distribution/service fees and do not convert into Class A shares (with the exception of American Funds and their F1 shares which are converted C Shares after holding for 10 years).

Be advised that customers investing $1 million or more and certain retirement plans may not be permitted by the Fund Company to purchase Class C shares. In addition, orders to purchase Class B shares for customers investing $1 million or more may be rejected by a fund company.

Class A shares may be sold at NAV (no front-end sales load) to certain persons and in certain instances as noted in the prospectus. Because these Class A shares are sold at NAV and because the expenses of Class A shares will be lower than those of Class B and Class C shares, any purchaser eligible to purchase Class A shares at NAV should be advised.

Because the CDSC on Class B shares is reduced for each year the shares are held, a redemption of Class B shares just before the date the CDSC declines (“the anniversary date”) is in some ways analogous to a breakpoint sale. However, a customer might wish to redeem just before the anniversary date for tax or other reasons, and a customer who chose to wait would continue to be at market risk. Nevertheless, Associated Persons should inform customers intending to redeem Class B or C shares near an anniversary date that if the redemption were delayed, the CDSC may be reduced or eliminated.

FINRA’s or the SEC’s expense analyzer are tools that can be utilized by both Associated Persons and supervisors to evaluate the recommendation of a share class. The expense analyzers can be accessed at:

<http://www.finra.org/fundsearch>

<http://www.sec.gov/investor/tools/mfcc/get-started.htm>

**Associated Persons must advise customers of all available sales financing methods offered by a fund company and the impact of choosing one method over another. The WSC Investment Products Receipt and Disclosure – Mutual Funds form will be used to inform customers of the investments features of a particular mutual fund, the applicable class structure, breakpoint, and other pertinent disclosures. In some cases, it may be appropriate for the Supervisor to discuss the purchase directly with the customer.**

## 11.19 NAV Transfers & Reinstatement Privileges

Some mutual funds waive fees for eligible retirement plans and charities. RRs are obligated to apply waivers where they are available. Through a NAV transfer, certain mutual fund families allow the investor to purchase Class A shares of a mutual fund without paying a front-end sales charge, if the investor is using proceeds from the sale of a mutual fund in another mutual fund family for which a front-end or contingent deferred sales charge has already been paid. The period when the discount is available is generally 30 to 90 days from the date the investor purchased the other fund. These sales charge reductions are not available on all funds and can only be determined by reading the prospectus and Statement of Additional Information. Generally, customers will not make short-term sales of mutual funds. In those unusual circumstances, where the customer is making such a sale, the RR should investigate whether a waiver is available on the new purchase. Supervisor reviews will be evidenced by signing the new account form or initialing the mutual fund application or the order ticket if a new account form is not obtained on an established account.

In addition, some funds offer shareholders a "reinstatement privilege" allowing the shareholder to reinvest some or all of the proceeds from a prior liquidation of the fund within a specified period of time (for example, 180 days) at a reduced sales load or no sales load. The RR should determine whether the customer qualifies for a reinvestment privilege and, if he or she qualifies, note this on the order at time of entry.

## 11.20 Late Trading

FINRA Notice to Members 03-50 states in part: *“It is a violation of FINRA Rule 2010 and may be a violation of the federal securities laws and FINRA Rule 2020, for member firms and their associated persons to knowingly or recklessly effect mutual fund transactions that are priced based on NAV that is computed prior to the time the order to purchase or redeem was given by the customer. Furthermore, it may be a violation of FINRA Rule 2010 and the federal securities laws to knowingly or recklessly facilitate certain mutual fund transactions, such as market timing transactions, in conjunction with, or with the acquiescence of, a mutual fund sponsor, fund administrator, investment adviser, underwriter, or any other affiliated personnel where those other parties acted contrary to a representation made in the prospectus or statement of additional information pursuant to which the mutual fund shares are offered.”*

The clearing firm system does not allow for a late trade input. The system has internal controls that if a trade is input after the market close, an ALERT message appears stating that the trade has been entered after the close of the market and the trade will be entered the next business day.

On a daily basis, Trading/Operations reviews mutual fund cancellations and corrections. Any questionable activity will be brought to the attention of Morris Monroe and he shall investigate further with said review documented and initialed.

## 11.21 Market Timing

FINRA Notice to Members 03-50 states the following regarding market timing:

*“...certain mutual fund companies represent in their prospectuses or SAIs that they engage in practices that are intended to prevent or control market timing transactions. Market timing transactions include mutual fund trades that occur when the purchaser or seller believes that the mutual fund's NAV does not fully reflect the value of the fund's holdings for example, when the fund has in its portfolio particular holdings, such as foreign or thinly traded securities, which are priced on a basis that does not include the most updated information possible. In order to retard the efforts of investors who seek to profit on these pricing inefficiencies by executing mutual fund trades on a day when the NAV likely will not fully reflect the value of a fund's holdings and realizing the profit by trading the next day, some mutual fund companies have implemented measures to counteract the efforts of timers and have represented in their prospectuses or SAIs that they are conducting these measures. Consequently, where the mutual fund company and/or its affiliated persons have represented that they have taken steps to protect investors from market timers, a member firm and its associated persons may not knowingly or recklessly act in conjunction with, or with the acquiescence of, the fund and/or its affiliated persons to undertake, effect, or facilitate a market timing transaction.”*

Neither the Company nor its associated persons are permitted to collude with mutual funds and their affiliated persons to circumvent the mutual funds stated procedures. Designated principals or designees will attempt to detect such by reviewing correspondence (including e-mails). Large mutual fund transactions ($1,000,000 and over) will also be reviewed and if the fund experiences a large price change the day following the transaction, the designated principal shall investigate the trade. The results of the investigation shall be noted on the order ticket, trade journal, or via a memo. The reviewer shall initial the document that was reviewed and on which a notation was made to evidence their review. If the investigation does not yield a satisfactory answer for the reason and timing of the trade, Morris Monroe shall take appropriate disciplinary action that includes any or a combination of: verbal warning, written warning, fine, suspension, loss of commissions for the trades in question, or termination.

## 11.22 Redemption Procedures

Clients whose accounts are held at the fund can redeem shares directly with the mutual fund company otherwise, if held at Hilltop Securities, they may incur a ticket charge for the handling of their redemption transaction. Redemptions are reviewed daily with all other orders.

## 11.23 Prospectus Reviews and Delivery

Most mutual funds are "open ended" which means that new shares are continuously being issued by the fund company at the public offering price. Consequently, these mutual fund shares are considered new issue securities and a prospectus must be delivered to all customers buying shares of the fund before the transactions settle. Morris Monroe or the designated supervisor will review prospectuses on an ongoing basis to ensure current issues are being delivered and outdated prospectuses are destroyed that may be maintained at the home office.

## 11.24 Non-Cash Compensation

It shall be the responsibility of Morris Monroe to review all compensation arrangements with mutual fund sponsors to ensure that they meet the following compensation requirements and restrictions on non-cash compensation arrangements.

(1) Except as described below, no associated person of the Company shall accept any compensation from anyone other than the Company. This requirement will not prohibit arrangements where non-member company pays compensation directly to Associated Persons of the Company, provided that:

(A) The arrangement is agreed to by the Company;

(B) The Company relies on an appropriate rule, regulation, interpretive release, interpretive letter, or "no-action" letter issued by the Commission or its staff that applies to the specific fact situation of the arrangement;

(C) The receipt by Associated Persons of such compensation is treated as compensation received by the Company for purposes of the Rules of the Association; and

(D) The record keeping requirement in paragraph (3) is satisfied.

(2) No member or person associated with the Company shall accept any compensation from an offeror which is in the form of securities of any kind.

(3) Except for items described in subparagraphs (5)(A) and (B), the Company shall maintain records of all compensation received by the Company or its Associated Persons from offerors. The records shall include the names of the offerors, the names of the Associated Persons, the amount of cash, the nature and, if known, the value of non-cash compensation received.

(4) The Company shall not accept any cash compensation from an offeror unless such compensation is described in a current prospectus of the investment company. When special cash compensation arrangements are made available by an offeror to the Company, which arrangements are not made available on the same terms to all members who distribute the investment company securities of the offeror, the Company shall not enter into such arrangements unless the name of the Company and the details of the arrangements are disclosed in the prospectus. Prospectus disclosure requirements shall not apply to cash compensation arrangements between:

(A) Principal underwriters of the same security; and

(B) The principal underwriter of a security and the sponsor of a unit investment trust which utilizes such security as its underlying investment.

(5) No member or person associated with the Company shall directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as provided in this provision. Notwithstanding the provisions of subparagraph (1), the following non-cash compensation arrangements are permitted:

(A) Gifts that do not exceed an annual amount per person fixed periodically by the Associationand are not preconditioned on achievement of a sales target.

(B) An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target.

(C) Payment or reimbursement by offerors in connection with meetings held by an offeror or by the Company for the purpose of training or education of Associated Persons of the Company, provided that:

(i) The record keeping requirement in paragraph (l)(3) is satisfied;

(ii) Associated Persons obtain the Company's prior approval to attend the meeting and attendance by the Company's Associated Persons is not preconditioned by the Company on the achievement of a sales target or any other incentives pursuant to a non-cash compensation arrangement permitted by paragraph (l)(5)(D);

(iii) The location is appropriate to the purpose of the meeting, which shall mean an office of the offeror or the Company, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings;

(iv) The payment or reimbursement is not applied to the expenses of guests of the associated person; and

(v) The payment or reimbursement by the offeror is not preconditioned by the offeror on the achievement of a sales target or any other non-cash compensation arrangement permitted by paragraph (5)(D).

(D) Non-cash compensation arrangements between the Company and its Associated Persons or a non-member company and its sales personnel who are associated persons of an affiliated member, provided that:

(i) The Company’s or non-member's non-cash compensation arrangement, if it includes investment company securities, is based on the total production of associated persons with respect to all investment company securities distributed by the Company;

(ii) The non-cash compensation arrangement requires that the credit received for each investment company security is equally weighted;

(iii) No unaffiliated non-member company or other unaffiliated member directly or indirectly participates in the Company's or non-member's organization of a permissible non-cash compensation arrangement; and

(iv) The record keeping requirement in paragraph (3) is satisfied.

(E) Contributions by a non-member company or other member to a non-cash compensation arrangement between the Company and its associated persons, provided that the arrangement meets the criteria in paragraph (5)(D).

## 11.25 Reviews

The Company reviews accounts for switching, order splitting, letters of intent and rights of accumulation by the following methods:

(a) Blotter Reports will be reviewed for any account that has two or more mutual fund transactions to detect any of the above-mentioned practices.

(b) A review of mutual fund liquidations is performed. Any liquidating transaction will result in a Principal of Company monitoring the account for a period of time to determine whether the client is reinvesting in another mutual fund. Also, the account holdings will be reviewed to see if multiple fund families are present, which may indicate that the client is missing the opportunity to receive lower load fees by combining funds into one fund family. This review takes place when blotters are reviewed by Morris Monroe or his designee and evidenced by signed EOD reports from WinOps. Questioned account activity will be investigated promptly and appropriate action will be taken.

During account reviews, the presence of holdings within an account of multiple load mutual fund families will be also investigated. Account reviews will be evidenced by the reviewer’s initials and date of review in WinOps.

In addition, mutual fund correspondence is also reviewed at the same time that all correspondence is reviewed.

## 11.26 Training

The Company will provide ongoing training to its employees and Associated Persons as long as it offers mutual funds shares to the public. This training will typically be conducted annually at the compliance meeting and/or through the Firm Element continuing education but may be conducted in the interim should the need arise. Training will include, but not limited to:

Advertising and sales literature

Prospectus delivery

Proper breakpoints being issued

Reviewing transactions and accounts

Regulatory news and updates

Supervisory procedures

Disclosures to customers

Any training conducted will be evidenced by a log and/or description of the training and those in attendance. This log will be maintained as part of the Company’s books and records for a period of three years.

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# 12. FIXED INCOME, GOVERNMENT SECURITIES, CMOs

## 12.1 Introduction

These procedures apply to corporate debt securities and government securities. Morris Monroe will have responsibility for supervising fixed income securities transactions in the home office and the applicable supervisor will be responsible for the OSJs.

References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

## 12.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principal |
| **Statutes** | * FINRA Rule 2120, 2121, 2232 – Mark ups and downs, Confirmations * FINRA Rule 6700 series – TRACE reporting * Government Securities Act Amendments Of 1993 |
| **Frequency** | * As required * Daily trade blotters * Annual training |
| **Actions** | * Review of order information * Review of TRACE reporting * Review of TRACE Entitlement and Contact Report * Provide training to Associated Persons |
| **Records** | * Trade blotters * Order tickets * Training records * TRACE review records |

## 12.3 Markups/Markdowns

All executed orders should be reviewed by the designated principal at each OSJ. The Company shall not charge any principal markups/markdowns, whether riskless or at risk, greater than 5%. Any exceptions would be required to be approved by Morris Monroe and the conditions precedent to the exception must be noted in the Company's records to document the basis of granting of such exception. Following is FINRA's Mark-Up Policy in Rule 2121.

Effective 5/18/18, pursuant to FINRA Rules 2232 and 2121, the amount of mark-ups and mark-downs will be disclosed on retail customer confirmation from the custodian *(eff 05/14/18)*. Two additional disclosures include: (1) a reference (or hyperlink if the confirmation is electronic) to a FINRA web page containing publicly available trading data for the security traded; and (2) the execution time expressed to the second. Disclosure is required if Company executes one or more offsetting principal trades in the same security on the same trading day which, in aggregate, meet or exceed the size of the customer trade. Disclosure may also be required because of an offsetting principal trade executed by an affiliate that did not occur at arm's length [defined in FINRA Rule 2232(f)(3)]. Disclosure is not required for principal trades executed on a trading desk functionally separate from a trading desk that executes customer trades. It is also not required for bonds acquired in a fixed-priced offering and sold to non-institutional customers at the same offering price the same day Company acquires the bonds. Trades will be reviewed post trade by Compliance to ensure markup is disclosed on the confirmation and if not, Operations will initiate a cancel and rebill to generate a corrected confirm.

**General Considerations**

1. The historical "5% Policy" is a guide, not a rule.
2. A member may not justify mark-ups on the basis of expenses which are excessive.
3. The mark-up over the prevailing market price is the significant spread from the point of view of fairness of dealings with customers in principal transactions. In the absence of other bona fide evidence of the prevailing market, a member's own contemporaneous cost is the best indication of the prevailing market price of a security.
4. A mark-up pattern of 5% or even less may be considered unfair or unreasonable under the "5% Policy."
5. Determination of the fairness of mark-ups must be based on a consideration of all the relevant factors, of which the percentage of mark-up is only one.

**Prevailing Market Price**

**(1)** A dealer that is acting in a principal capacity in a transaction with a customer and is charging a mark-up or mark-down must mark-up or mark-down the transaction from the prevailing market price. The presumptive prevailing market price for a debt security is established by referring to the dealer's contemporaneous cost as incurred, or contemporaneous proceeds as obtained, consistent with FINRA pricing rules. (See Rule 5310).

**(2)** When the dealer is *selling* the security to a customer, countervailing evidence of the prevailing market price may be considered only where the dealer made no contemporaneous purchases in the security or can show that in the particular circumstances the dealer's *contemporaneous cost* is not indicative of the prevailing market price. When the dealer is buying the security from a customer, countervailing evidence of the prevailing market price may be considered only where the dealer made no contemporaneous sales in the security or can show that in the particular circumstances the dealer's *contemporaneous proceeds* are not indicative of the prevailing market price.

**(3)** A dealer's cost is considered contemporaneous if the transaction occurs close enough in time to the subject transaction that it would reasonably be expected to reflect the current market price for the security. (Where a mark-down is being calculated, a dealer's proceeds would be considered contemporaneous if the transaction from which the proceeds result occurs close enough in time to the subject transaction that such proceeds would reasonably be expected to reflect the current market price for the security.)

**(4)** A dealer that effects a transaction in debt securities with a customer and identifies the prevailing market price using a measure other than the dealer's own contemporaneous cost (or, in a mark-down, the dealer's own proceeds) must be prepared to provide evidence that is sufficient to overcome the presumption that the dealer's contemporaneous cost (or, the dealer's proceeds) provides the best measure of the prevailing market price. A dealer may be able to show that its contemporaneous cost is (or proceeds are) not indicative of prevailing market price, and thus overcome the presumption, in instances where:

* interest rates changed after the dealer's contemporaneous transaction to a degree that such change would reasonably cause a change in debt securities pricing;
* the credit quality of the debt security changed significantly after the dealer's contemporaneous transaction; or
* news was issued or otherwise distributed and known to the marketplace that had an effect on the perceived value of the debt security after the dealer's contemporaneous transaction.

**(5)** In instances where the dealer has established that the dealer's cost is (or, in a mark-down, proceeds are) no longer contemporaneous, or where the dealer has presented evidence that is sufficient to overcome the presumption that the dealer's contemporaneous cost (or proceeds) provides the best measure of the prevailing market price, such as those instances described under *Prevailing Market Price*, sub-paragraph (4), a member must consider, in the order listed, the following types of pricing information to determine prevailing market price:

1. Prices of any contemporaneous inter-dealer transactions in the security in question;
2. In the absence of transactions described in (a), prices of contemporaneous dealer purchases (sales) in the security in question from (to) institutional accounts with which any dealer regularly effects transactions in the same security; or
3. In the absence of transactions described in (a) and (b), for actively traded securities, contemporaneous bid (offer) quotations for the security in question made through an inter-dealer mechanism, through which transactions generally occur at the displayed quotations.

[A member may consider a succeeding category of pricing information only when the prior category does not generate relevant pricing information (*e.g.,* a member may consider pricing information under (b) only after the member has determined, after applying (a), that there are no contemporaneous inter-dealer transactions in the same security). In reviewing the pricing information available within each category, the relative weight, for purposes of identifying prevailing market price, of such information (*i.e.,* either a particular transaction price, or, in (c) above, a particular quotation) depends on the facts and circumstances of the comparison transaction or quotation (*i.e.,* such as whether the dealer in the comparison transaction was on the same side of the market as the dealer is in the subject transaction and timeliness of the information).]

**(6)** In the event that, in particular circumstances, the above factors are not available, other factors that may be taken into consideration for the purpose of establishing the price from which a customer mark-up (mark-down) may be calculated, include but are not limited to:

* Prices of contemporaneous inter-dealer transactions in a "similar" security, as defined below, or prices of contemporaneous dealer purchase (sale) transactions in a "similar" security with institutional accounts with which any dealer regularly effects transactions in the "similar" security with respect to customer mark-ups (mark-downs);
* Yields calculated from prices of contemporaneous inter-dealer transactions in "similar" securities;
* Yields calculated from prices of contemporaneous dealer purchase (sale) transactions with institutional accounts with which any dealer regularly effects transactions in "similar" securities with respect to customer mark-ups (mark-downs); and
* Yields calculated from validated contemporaneous inter-dealer bid (offer) quotations in "similar" securities for customer mark-ups (mark-downs).

The relative weight, for purposes of identifying prevailing market price, of the pricing information obtained from the factors set forth above depends on the facts and circumstances surrounding the comparison transaction (*i.e.,* whether the dealer in the comparison transaction was on the same side of the market as the dealer is in the subject transaction, timeliness of the information, and, with respect to the final factor listed above, the relative spread of the quotations in the similar security to the quotations in the subject security).

**(7)** Finally, if information concerning the prevailing market price of the subject security cannot be obtained by applying any of the above factors, FINRA or its members may consider as a factor in assessing the prevailing market price of a debt security the prices or yields derived from economic models (*e.g.,* discounted cash flow models) that take into account measures such as credit quality, interest rates, industry sector, time to maturity, call provisions and any other embedded options, coupon rate, and face value; and consider all applicable pricing terms and conventions (*e.g.,* coupon frequency and accrual methods). Such models currently may be in use by bond dealers or may be specifically developed by regulators for surveillance purposes.

**(8)** Because the ultimate evidentiary issue is the prevailing market price, isolated transactions or isolated quotations generally will have little or no weight or relevance in establishing prevailing market price. For example, in considering yields of "similar" securities, except in extraordinary circumstances, members may not rely exclusively on isolated transactions or a limited number of transactions that are not fairly representative of the yields of transactions in "similar" securities taken as a whole.

**(9)** "Customer" does not include a qualified institutional buyer ("QIB") as defined in Rule 144A under the Securities Act of 1933 that is purchasing or selling a non-investment grade debt security when the dealer has determined, after considering the factors set forth in Rule 2111(b), that the QIB has the capacity to evaluate independently the investment risk and in fact is exercising independent judgment in deciding to enter into the transaction. "Non-investment grade debt security" means a debt security that:

* if rated by only one nationally recognized statistical rating organization ("NRSRO"), is rated lower than one of the four highest generic rating categories;
* if rated by more than one NRSRO, is rated lower than one of the four highest generic rating categories by any of the NRSROs; or
* if unrated, either was analyzed as a non-investment grade debt security by the dealer and the dealer retains credit evaluation documentation and demonstrates to FINRA (using credit evaluation or other demonstrable criteria) that the credit quality of the security is, in fact, equivalent to a non-investment grade debt security, or was initially offered and sold and continues to be offered and sold pursuant to an exemption from registration under the Securities Act of 1933.

**“Similar" Securities**

**(1)** A "similar" security should be sufficiently similar to the subject security that it would serve as a reasonable alternative investment to the investor. At a minimum, the security or securities should be sufficiently similar that a market yield for the subject security can be fairly estimated from the yields of the "similar" security or securities. Where a security has several components, appropriate consideration may also be given to the prices or yields of the various components of the security.

**(2)** The degree to which a security is "similar" to the subject security may be determined by factors that include but are not limited to the following:

* Credit quality considerations, such as whether the security is issued by the same or similar entity, bears the same or similar credit rating, or is supported by a similarly strong guarantee or collateral as the subject security (to the extent securities of other issuers are designated as "similar" securities, significant recent information of either issuer that is not yet incorporated in credit ratings should be considered (*e.g.,* changes to ratings outlooks));
* The extent to which the spread (*i.e.,* the spread over U.S. Treasury securities of a similar duration) at which the "similar" security trades is comparable to the spread at which the subject security trades;
* General structural characteristics and provisions of the issue, such as coupon, maturity, duration, complexity or uniqueness of the structure, call ability, the likelihood that the security will be called, tendered or exchanged, and other embedded options, as compared with the characteristics of the subject security; and
* Technical factors such as the size of the issue, the float and recent turnover of the issue, and legal restrictions on transferability as compared with the subject security.

**(3)** When a debt security's value and pricing is based substantially on, and is highly dependent on, the particular circumstances of the issuer, including creditworthiness and the ability and willingness of the issuer to meet the specific obligations of the security, in most cases other securities will not be sufficiently similar, and therefore, other securities may not be used to establish the prevailing market price.

**Relevant Factors**

Relevant factors to consider when determining the fairness of a mark-up are as follows:

1. **The Type of Security Involved:** Some securities customarily carry a higher mark-up than others. For example, a higher percentage of mark-up customarily applies to a common stock transaction than to a bond transaction of the same size. Likewise, a higher percentage applies to sales of units of direct participation programs and condominium securities than to sales of common stock.
2. **The Availability of the Security in the Market:** In the case of an inactive security, the effort and cost of buying or selling the security, or any other unusual circumstances connected with its acquisition or sale, may have a bearing on the amount of mark-up justified.
3. **The Price of the Security:** While there is no direct correlation, the percentage of mark-up or rate of commission generally increases as the price of the security decreases. Even where the amount of money is substantial, transactions in lower priced securities may require more handling and expense and may warrant a wider spread.
4. **The Amount of Money Involved in a Transaction:** A transaction which involves a small amount of money may warrant a higher percentage of mark-up to cover the expenses of handling.
5. **Disclosure:** Any disclosure to the customer, before the transaction is affected, of information which would indicate (A) the amount of commission charged in an agency transaction or (B) mark-up made in a principal transaction is a factor to be considered. Disclosure itself, however, does not justify a commission or mark-up which is unfair or excessive in light of all other relevant circumstances.

The amount of mark-ups and mark-downs will be disclosed on retail customer confirmation from the custodian. Two additional disclosures include: (1) a reference (or hyperlink if the confirmation is electronic) to a FINRA web page containing publicly available trading data for the security traded; and (2) the execution time expressed to the second. Disclosure is required if Company executes one or more offsetting principal trades in the same security on the same trading day which, in aggregate, meet or exceed the size of the customer trade. Disclosure may also be required because of an offsetting principal trade executed by an affiliate that did not occur at arm's length [defined in FINRA Rule 2232(f)(3)]. Disclosure is not required for principal trades executed on a trading desk functionally separate from a trading desk that executes customer trades. It is also not required for bonds acquired in a fixed-priced offering and sold to non-institutional customers at the same offering price the same day Woodlands Securities Corp acquires the bonds.

1. **The Pattern of Mark-Ups:** While each transaction must meet the test of fairness, FINRA believes that particular attention should be given to the pattern of a member's mark-ups.
2. **The Nature of the Member's Business:** FINRA recognizes there are differences in the services and facilities which are needed by, and provided for, customers of members. If not excessive, the cost of providing such services and facilities, particularly when they are of a continuing nature, may properly be considered in determining the fairness of a member's mark-ups.

**Applicability of Policy**

The Policy applies to all securities, whether oil royalties or any other security, in the following types of transactions:

1. A transaction in which a member buys a security to fill an order for the same security previously received from a customer. This transaction would include the so-called "riskless" or "simultaneous" transaction.
2. A transaction in which the member sells a security to a customer from inventory. In such a case the amount of the mark-up would be determined on the basis of the mark-up over the bona fide representative current market. The amount of profit or loss to the member from market appreciation or depreciation before, or after, the date of the transaction with the customer would not ordinarily enter into the determination of the amount or fairness of the mark-up.
3. A transaction in which a member purchases a security from a customer. The price paid to the customer or the mark-down applied by the member must be reasonably related to the prevailing market price of the security.
4. A transaction in which the member acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances.
5. Transactions wherein a customer sells securities to, or through, a broker/dealer, the proceeds from which are utilized to pay for other securities purchased from, or through, the broker/dealer at or about the same time. In such instances, the mark-up shall be computed in the same way as if the customer had purchased for cash and in computing the mark-up there shall be included any profit or commission realized by the dealer on the securities being liquidated, the proceeds of which are used to pay for securities being purchased.

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

## 12.4 Treasury’s Risk Assessment Rules

An exemption is claimed under the risk assessment rule due to one of the following:

Treasury's rules exempt a Section 15C broker/dealer if it:

* Does not carry customer accounts and maintains capital (equity capital plus subordinated debt) of less than $20 million;
* Maintains capital of less than $250,000 (regardless of whether it carries customer accounts or not); and
* has an affiliated registered broker/dealer that is subject to, and in compliance with, the SEC’s risk assessment rules, provided that all of the MAPs of the Section 15C broker/dealer are also MAPs of the registered broker/dealer.

A Section 15C broker/dealer that has no affiliates or holding company is not subject to Treasury’s risk assessment rules.

## 12.5 Parking

“Parking” which refers to scheme to conceal beneficial ownership of securities by transferring securities to another person with the understanding that they will be reacquired by the original owner in the future with no loss to the person accommodating the parking scheme is strictly forbidden.

## 12.6 Adjusted Trading

Adjusted trading or overtrading which refers to an inappropriate practice involving the sale by a customer, usually a bank or fiduciary for an institutional or trust account, of a security to a broker/dealer at a price above the prevailing market value and the simultaneous purchase and booking of a different security at a price greater than its market value is strictly prohibited.

## 12.7 Churning

"Churning", which refers to executing trades in a client's account for the primary purpose of generating commissions, is forbidden by the Company.

## 12.8 High Yield Debt

High yield debt, due to the high risk and volatility of these securities, markups/markdowns may be allowed up to 5% or slightly higher. However, any markups/markdowns higher than 5% must be approved by Morris Monroe. Morris Monroe shall document the conditions precedent to the exception in support of granting of such exception.

## 12.9 Trade Reporting Compliance Engine (TRACE) *FIPS Rule Rescission*

On January 23, 2001, the Securities and Exchange Commission approved proposed rules that will require FINRA members to report over the counter (OTC) secondary market transactions in eligible fixed income securities to FINRA (within 15 minutes) and subject certain transaction reports to dissemination. Prices on these trades are then shown to the investing public, subject to certain restrictions and limitations for purposes of ascertaining comparability.

The Trade Reporting and Compliance Engine (TRACE) is the FINRA-developed vehicle that facilitates this mandatory reporting. All broker/dealers who are FINRA member firms have an obligation to report eligible secondary market, over-the-counter transactions in corporate bonds to TRACE under SEC rules. The implementation date for TRACE is July 1, 2002.

Morris Monroe has the responsibility for ensuring that TRACE reports are submitted timely and accurately. Currently, the Company has engaged its clearing firm, Hilltop Securities, Inc. (HTS) to submit TRACE order information on its behalf. The Company has submitted the proper TRACE Participation Agreement with Attachment B completed, with HTS noted as the named Service Bureau, and the TRACE Order Form.

The TRACE Rules provide the following:

1. Fixed income transactions that must be reported under the new TRACE Rules are those OTC secondary market transactions involving a "TRACE-eligible security;"
2. The term "TRACE-eligible security" means

* all US Treasury securities (all securities issued by the Treasury Dept. including separate principal and interest components; savings bonds and U.S. Treasury securities bought in an auction are NOT included);
* US dollar denominated debt securities issued by a US or foreign private issuer (and if a restricted security, sold under Rule 144A);
* A debt security that is US dollar-denominated and issued or guaranteed by an Agency or a Government-Sponsored Enterprise (as defined in Rule 6710);
* Hybrid securities (both debt- and equity-like features) as specified by FINRA;
* FDIC-guaranteed debt securities under the federal “Temporary Liquidity Guarantee Program’”
* Asset- and mortgage-backed securities (as broadly defined in FINRA Rule 6710(a) including CMOs, CDOs, CBOs and other asset-backed securities;

TRACE eligible securities include unlisted convertible debt, unlisted equity-linked notes and similar securities (those that are listed on a national securities exchange must be reported to the appropriate equity trade reporting facility). A "foreign private issuer" is a foreign issuer that is not eligible to use the SEC's Schedule B for registering a debt offering in the U.S.

1. Reporting obligations also include:

* primary market transactions in TRACE eligible securities;
* identification of corporate bond trades where the price of the trade is based on a spread to a benchmark Treasury security that was agreed upon earlier in the day (*i.e.,* a "delayed Treasury spot trade") and report the time at which the spread was agreed upon; and
* identification of corporate bond trades that are a part of a larger portfolio trade.

1. The term "TRACE-eligible security" specifically excludes
   * + Money market instruments;
     + Debt issued by a foreign sovereign; and

* eligible ATS transactions that involve only one FINRA member (other than the ATS)

1. A member that is a party to a transaction involving a member and a non-member, including a customer, in a fixed income security that is a TRACE-eligible security must report the transaction to FINRA and at the time all order information is available to the Company (which for the customer side is typically after the inter-dealer transaction);
2. When the party on the sell side and the party on the buy side of a transaction in a TRACE-eligible security are both members, both members must report the transaction to FINRA;
3. FINRA will disseminate transaction information relating to transactions in the following two types of securities:
   1. a TRACE-eligible security having an initial issuance size of $1 billion or greater that is Investment Grade at the time of receipt of the transaction report (except those securities that are issued pursuant to Section 4(2) of the Securities Act and purchased or sold pursuant to Rule 144A under the Securities Act); and
   2. a TRACE-eligible security that is designated as a Fixed Income Pricing SystemSM (FIPS®) Mandatory Bond ("FIPS 50 security") immediately prior to the time that the FIPS rules (the current Rule 6200 Series) are rescinded.

1. Dissemination in the securities transactions referenced in 6 above will occur immediately after the transaction information is received by FINRA.
2. Information on *all* transactions in TRACE-eligible securities must be disseminated immediately upon receipt, except those transactions in TRACE-eligible securities that are purchased or sold pursuant to Rule 144A under the Securities Act of 1933 (Securities Act) (Rule144A transactions).
3. The following transactions are not reportable:
   * + Transfers of TRACE-Eligible Securities for the sole purpose of creating or redeeming an instrument that evidences ownership of or otherwise tracks the underlying securities transferred (*e.g.,* an exchange-traded fund).
     + Transactions in TRACE-eligible securities that are listed on a national securities exchange when such transactions are executed on and reported to the exchange and the transaction information is disseminated publicly.
     + Transaction where the buyer and the seller have agreed to trade at a price substantially unrelated to the current market for the TRACE-eligible security (i.e. to allow the seller to make a gift).
     + Provided that a data sharing agreement between FINRA and NYSE related to transactions covered by this Rule remains in effect, transactions in TRACE-eligible securities that are executed on a facility of NYSE in accordance with NYSE Rule 1400, 1401 and 86 and reported to NYSE in accordance with NYSE’s applicable trade reporting rules and disseminated publicly by NYSE.
     + Transactions resulting from the exercise or settlement of an option or similar instrument, or the termination or settlement of a credit default swap, other type of swap, or a similar instrument.
     + Transfers of securities made pursuant to an asset purchase agreement (APA) that is subject to the jurisdiction and approval of a court of competent jurisdiction in insolvency matters, provided that the purchase price under the APA is not based on, and cannot be adjusted to reflect, the current market prices of the securities on or following the effective date of the APA.

* Transfers of TRACE eligible securities to create or redeem instruments such as ETFs.
* A sale from an issuer to an underwriter(s) or initial purchaser(s) as part of an offering, except a sale of an Agency Pass-Through Mortgage-Backed Security from a securitizer (Rule 6710(c)).
* Alternative Trading System (ATS) transactions exempted by FINRA (FINRA Rules 6731 and 6732).

1. The managing underwriter or group of underwriters of a distribution or offering (excluding a secondary distribution or offering) of a TRACE-eligible debt security must obtain the CUSIP number and report required information to FINRA Operations. Information must be provided to FINRA prior to the execution of the first transaction with exceptions under Rule 6760(c) including same-day pricing/trading and CMO issues.

### 12.9.1 TRACE Reporting

Fixed income transactions that must be reported under the TRACE rules (“TRACE-eligible security") are those secondary market transactions in United States dollar denominated debt securities that are depository-eligible securities; Investment Grade and Non-Investment Grade issued by United States and/or foreign private corporations; and: (1) registered with the SEC; or (2) issued pursuant to Section 4(2) of the Securities Act of 1933 (Securities Act) and purchased or sold pursuant to Rule 144A under the Securities Act and are DTC eligible, including certain PORTAL debt securities.

"TRACE-eligible securities" include securities that are:

* U.S. dollar denominated debt securities issued by a U.S. or foreign private issuer (and, if a restricted security, sold under Rule 144A);
* Hybrid securities (both debt- and equity-like features) as specified by FINRA;
* A debt security that is U.S. dollar-denominated and issued or guaranteed by an Agency or a Government-Sponsored Enterprise (as defined in Rule 6710);
* FDIC-guaranteed debt securities under the federal "Temporary Liquidity Guarantee Program;" **and**
* Asset- and mortgage-backed securities (as broadly defined in FINRA Rule 6710(a) including CMOs, CDOs, CBOs, and other asset-backed securities) [FINRA Rule 6730(a)(3)].

TRACE eligible securities include unlisted convertible debt, unlisted equity-linked notes and similar securities (those that are listed on a national securities exchange must be reported to the appropriate equity trade reporting facility). A "foreign private issuer" is a foreign issuer that is not eligible to use the SEC's Schedule B for registering a debt offering in the U.S.

Reporting obligations include primary market transactions in TRACE eligible securities.

"TRACE-eligible securities" **exclude**:

* debt issued by government-sponsored entities
* mortgage- or asset-backed securities
* CMOs
* money market instruments (debt securities with a maturity of one year or less)

If the Company is a party to a transaction involving a non-member, including a customer, in a "TRACE-eligible security" it must report the transaction to the FINRA within 15 minutes of the time of execution. If the Company is a party to a transaction involving another-member, both companies must report the transaction to the FINRA within 15 minutes of the time of execution and at the time all order information is available to the Company (which for the customer side is typically after the inter-dealer transaction).

### 12.9.2 Dissemination

The TRACE Rules provide that the Association will disseminate transaction information relating to transactions in two types of securities: (1) a TRACE-eligible security having an initial issuance size of $1 billion or greater that is Investment Grade at the time of receipt of the transaction report (except those securities that are issued pursuant to Section 4(2) of the Securities Act and purchased or sold pursuant to Rule 144A under the Securities Act); and (2) a TRACE-eligible security that is designated a FIPS Mandatory Bond immediately prior to the rescission of the FIPS rules.

Not all of the information that is reported will be disseminated. For each transaction, the FINRA will disseminate, or supply to vendors to disseminate, the following information: (a) the FINRA symbol for the fixed income security; (b) the CUSIP; (c) the date and time of trade execution; (d) price; (e) yield; and (f) quantity of bonds, subject to the following limitations. For a TRACE-eligible security having an initial issuance size of $1 billion or greater that is Investment Grade as referenced above, the actual quantity of the transaction (the total par value of the bonds purchased or sold) will be disseminated if the total par value of the reported transaction is $5 million or less; if the reported amount is greater than $5 million, a large volume trade dissemination cap identifier of "5MM+ will be disseminated instead of the actual quantity. For a TRACE-eligible security that is designated as a FIPS Mandatory Bond as referenced above, the actual quantity of the transaction will be disseminated if the total par value of the reported transaction is $1 million or less; if the reported amount is greater than $1 million, a large volume trade dissemination cap identifier of "1MM+" will be disseminated instead of the actual quantity.

For each security, the highest price of the day, the lowest price of the day, and the "last sale" price of the day will be flagged with indicators for dissemination, when applicable. Certain modifiers may also be part of the information disseminated.

Immediately upon receipt of transaction reports between 8:00 a.m. and 6:30 p.m., Eastern Time, the Association will disseminate the transaction information. (Reports received earlier or later than the times set forth above are also subject to dissemination as set forth in greater detail in TRACE Rule 6250(c) and (d)).

The Association expects that more fixed income securities transactions will become subject to dissemination in the future. In order to expand the classes and types of fixed income securities that would become subject to dissemination, the Association will work with the Bond Transaction Reporting Committee (BTRC), a special committee of the FINRA that will be formed to analyze the effect that the dissemination of price and other information in certain TRACE-eligible securities transactions has upon the liquidity of those markets. Based in part on those results, the Association will determine a schedule for the dissemination of additional TRACE-eligible debt securities.

### 12.9.3 Order Tickets

Order tickets must be either scanned and emailed or called into HTS (or entered directly into the Trade Entry module). Only the home office Trading/Operations personnel may process these orders. All TRACE orders must be reported in **Eastern Standard Time** to HTS for processing.

### 12.9.4 TRACE Reviews

Morris Monroe will ensure that all Trace eligible securities are reported as required by FINRA Rule 6700 by the Company’s clearing broker. Morris Monroe or Laura Hendricks will review the clearing broker’s Trace reporting on a weekly basis (or sooner if needed) through the FINRA TRACE website and indicate review by initialing the report. Discrepancies will be brought to the attention of the clearing broker and the correction will be reviewed on the subsequent day after being reported.

On a monthly basis, when applicable reports are available, Morris Monroe or Laura Hendricks will access the FINRA Report Center and obtain a copy of the Company's “TRACE Quality of Markets Report Card” and of its “TRACE Operations Report Card” (report is not available if there is no TRACE activity). If the reports indicate reporting problems, an investigation of same will be made and make any necessary adjustments. Review of the applicable monthly reports will be evidenced by initialing the report. In addition, Company will review, as part of its internal exam process, the TRACE Entitlements and Contact Report at least annually to ensure current authorized users and accurate information.

## 12.10 Collateralized Mortgage Obligations

As for all recommendations, RRs have an obligation to determine BI when recommending CMOs to individuals. The RR has the obligation to understand the features of CMOs before recommending them. Because of the wide range of features and potential complexity of some CMOs, the following must be considered:

* Customer's financial status including liquid net worth and income
* Customer's experience in investing in CMOs and his or her ability to understand the features including prepayment risk
* Customer's risk profile
* Customer's investment objectives, particularly the need for cash flow
* Features of the CMO and how they fit the customer's needs
* Disclosure of risks (see below)

In addition, RRs must consider market factors affecting CMOs at the time they are recommended. For example, in a low-interest, low-yield environment there may be a considerable compression of risk premium where investors bid up prices and drive down yields while default rates remain high compared to historical norms.

### 12.10.1 Characteristics and Risks

CMOs have characteristics that RRs must be acquainted with in order to assess the BI of them for investors who also should be aware of these characteristics prior to investing. Following is a list of key characteristics, which are different among various CMO issues.

* Underlying mortgage payments may be unpredictable and variable which may cause either an earlier than anticipated return of principal or a holding period longer than anticipated.
* There is reinvestment risk associated with early prepayments and various tranches of the same issue have different risk profiles.
* There is significant risk associated with less predictable tranches which subject customers to the possibility of losing their entire principal.
* The time to maturity, as well as the amount of principal returned, will vary based on the accuracy of prepayment assumptions.
* Prepayment assumptions are estimates based on historical prepayment rates and are factored into the price, yield and market value of a CMO.
* The more complex and esoteric the issue, the less likely it is that there will be current pricing information available or a ready market for the security.

### 12.10.2 CMO Disclosures

Any communication dealing with Collateralized Mortgage Obligations must disclose the following and may not disclose certain statements:

* Communications must include, within the name of the product, the term "Collateralized Mortgage Obligation;"
* CMOs must not be compared to CDs, treasury bonds, or other securities with fixed interest rates and stated maturities;
* Communications must disclose, as applicable, that a government agency backing applies only to the face value of the CMO and not to any premium paid; and,
* Communications must disclose that a CMO's yield and average life will fluctuate depending on the actual rate at which mortgage holders prepay the mortgages underlying the CMO and changes in current interest rates.
* There should be no assurance that the CMO will prepay principal at the current assumed rate; timing may vary significantly.

In addition to the above, FINRA has established standards for communications that promote a specific security or contain yield information. These requirements are complex and Compliance should be consulted when preparing this type of communication.

# 13. MUNICIPAL SECURITIES ACTVITIES

## 13.1 Introduction

These procedures outline requirements for complying with Company and regulatory obligations, including the MSRB (Municipal Securities Rulemaking Board) that apply to municipal securities transactions and their supervision. Morris Monroe shall have overall responsibility for the supervision of all municipal securities transactions as the Designated Municipal Principal (DMP). All RRs who solicit orders or sell municipal securities will be qualified as municipal securities representatives. Generally, individuals who successfully complete the Series 7 General Securities Sales examination will satisfy this requirement. After November 7, 2011, individuals who pass a Series 7 exam will be limited exclusively to customer sales and purchases of municipal securities and their designated supervisor is responsible for ensuring they do not exceed those limited activities. An individual seeking to engage in a wider range of transactions in municipal securities, including sales, trading, underwriting, and other non-supervisory municipal activities will be required to pass the Series 52 exam.

References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. MSRB Rule G-19 (Suitability) only applies in circumstances where Regulation BI does not apply and applies to recommendations to customers by bank dealers. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

### 13.1.1 Qualifications

Pursuant to **Rule G-3 *(eff 09/30/14)***, employees engaged in municipal activities must be registered as outlined in this section. References to "sales" also include the solicitation of sales to and/or purchases from customers. Company is not required to have two municipal securities principals since it is engaged in general securities business and is a member of FINRA.

**Municipal Securities Representative**

All RRs who solicit orders or sell municipal securities will be qualified as municipal securities representatives. Generally, individuals who successfully complete the Series 7 General Securities Sales examination or the Securities Industry Essentials Exam (SIE) and the Series 52 Municipal Securities Representative exam will satisfy this requirement.

**Limited Representative**

Municipal Securities Sales Limited Representatives are limited exclusively to handling customer sales and purchases of municipal securities. The term "limited representative - investment company and variable contracts products" means a municipal securities representative limited exclusively to the sale and purchase of municipal fund securities. Limited representatives may not engage in other municipal activities such as trading or underwriting. For offices where RRs are qualified as Limited Representatives, the designated supervisor is responsible for determining that those RRs do not exceed the limited activities permitted under this registration status.

The SIE and Series 7 examination qualifies a Municipal Securities Sales Limited Representative.

The SIE and Series 6 examination qualifies an Investment Company/Variable Contracts Limited Representative.

**Municipal Advisors**

Municipal Advisors must be registered with a qualifying exam as well. These are natural persons associated with a municipal advisor who engages in providing advice to a municipal entity or obligated person regarding municipal financial products or the issuance of municipal securities. It does not include persons performing only clerical, administrative, support or similar functions. Municipal advisors are required to deal fairly with all persons and may not engage in any deceptive, dishonest, or unfair practice. Company does not engage in such activities.

## 13.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Morris Monroe – Municipal Principal or Designated Supervisor if applicable |
| **Statutes** | * SEC Rule 15c2-12 – disclosure obligations for both initial and secondary offerings * MSRB Rules * FINRA Rules 1160 and 3310 - AML Compliance Officer * FINRA Rule 3011(c) – Testing |
| **Frequency** | * Ongoing – monitor activity * Ongoing – review new regulations |
| **Actions** | * Develop and maintain procedures * Review trades as they occur * Review RTRS website * Review Inventory positions to ensure zeroed out (Operations). * An Operations personnel set up for Trade Affirm emails from MSRB * Individual training as required and CE records * Retain required records * Provide contact information to MSRB annually and update contact information if necessary * Pay annual MSRB fee * Forward a copy of or a notice of availability of Official Statements (on EMMA) to customers purchases a new issue * Obtain Rule G-37 certifications annually * Identify transactions effected after June 1, 2002 in an amount lower than the minimum denomination for the issue   + Confirm whether the transaction meets an exception to the rule through account records or obtaining a written statement from the customer   + If no exceptions to the rule, may need to take corrective which could include contacting the RR and the customer or cancelling the transaction. * Revise policies and procedures as necessary * Any applicable notices to MSRB * Contact Compliance to determine corrective action if prohibited activities using Firm resources are identified |
| **Records** | * Transactions * Any exception reports and/or any corrective actions taken if any * New Account forms and other account records for review * Any Retail Communication including any written statements from customers if any * Official Statements sent or EMMA notice log * Annual MSRB Fee paid * Municipal Securities Professionals and any related certifications * Annual certifications of political contributions * Any municipal complaints * Record of changes to policies and procedures * Notices to MSRB |

## 13.3 General

All municipal trades must be routed though the home office. Each office conducting a municipal securities business shall be inspected by Morris Monroe in accordance with MSRB Rule G-27, based upon the following schedule and the Company shall maintain a written record of the dates and scope of its inspection.

**Office Size Schedule of Inspection**

1-10 Retail Associated Persons Annual Inspection

Over 10 Retail Associated Persons Semi-Annual Inspections

Prior to a registered representative accepting an initial order for the execution of a client's municipal transaction, the registered representative must complete and sign a new account form and submit it to the municipal principal for approval. All information requested must be completed in accordance with Rule **G-8**(a)(xi) prior to the initial order being accepted. Prior to recommending to a non-institutional account a municipal security transaction the registered representative should make reasonable efforts to obtain information concerning: the customer's financial status; the customer's tax status, the customer's investment objectives; and such other information used or considered to be reasonable and necessary in making the recommendation to the customer.

### 13.3.1 Rule G-19 - Suitability

Pursuant to **Rule G-19**, in order to determine the suitability of a recommendation in a municipal security transaction the registered representative should have reasonable grounds based upon information available from the issuer of the security and based upon the facts disclosed by the customer or otherwise known about the customer believing that the recommendation is suitable.

The revisions to Rule G-19 expand this list to include additional items also included in FINRA Rule 2111, such as: age, investment time horizon, liquidity needs, investment experience, risk tolerance and “any other information the customer may disclose to the broker, dealer or municipal securities dealer in connection with such recommendation.”

Each transaction in municipal securities will be reviewed and approved in writing on a daily basis by Morris Monroe to ensure compliance with applicable MSRB, FINRA rules and laws governing such transactions. Accounts for non-natural persons (trusts, pension/profit sharing plans, corporations, etc.) require additional supportive documentation such as should designate the individual(s) within the institution authorized to act for it. If the account intends to effect municipal transactions the supportive documentation should disclose the specific investment objectives for the account.

This rule shall not apply to recommendations subject to Regulation Best Interest, Rule 15l-1 under the Act.

### 13.3.2 Trades in the HTS Trading Module:

When entering a trade into the HTS system:

* + 1. If no mark-up, enter the concession to the client as a “Commission.”
    2. If there is a mark-up to the client, it will be reflected in the price charged to the client. The HTS Trading System will automatically calculate the Sales Credit.
    3. Enter Prevailing Market Price (PMP) from dealer and enter Waterfall Level as “Contemporaneous Cost” (which will then calculate any applicable markup)
    4. All Agency Cross trades will either be entered in house or submitted to the Fixed Income Trading Supervisor to ensure proper handling and reporting to the RTRS system. Following the trade(s), a review of the RTRS system will be conducted to ensure proper reporting as evidenced in the WORD document MSRB Review.
    5. Operations will ensure the Inventory Account is zeroed out after customer sides are entered.

All requests for account transfers must be received from the customer in writing. When a request is received by the Company, it shall be forwarded to Hilltop Securities no later than the end of the day. A copy of the written request and if applicable, mailing receipt shall be maintained in the customer’s file.

### 13.3.3 Rule A-12(h)

Pursuant to MSRB **Rule A-12(h)**, Compliance will respond to regulatory requests for information within 15 days (or a longer agreed-upon period).

### 13.3.4 Short Positions

Short positions may occur when trading activity inadvertently results in creating a firm short position or when the Company fails to receive securities it purchased to fill a customer's municipal securities order. These occurrences may affect the tax-exempt status of a customer's municipal securities interest if the securities become a short position. The customer may receive substitute interest which could be taxable.

If a short position occurs where a customer has purchased the municipal securities in question, the following procedures will be followed by the designated supervisor:

* The short position will be evaluated to determine whether the customer's tax-free interest is in question.
* The customer will be notified and offered the opportunity to cancel the order and substitute for a different municipal security.
* A record of the short position and corrective action will be maintained.

### 13.3.5 Best Execution

Pursuant to MSRB **Rule G-18**, Company has an obligation to provide best execution for its customers' orders, including orders executed internally and whether as agent or principal. "Best execution" refers to using reasonable diligence to determine the best market to buy or sell a security and obtaining a price as favorable as possible under prevailing market conditions.

Factors for using "reasonable diligence" include:

* the character of the market for the security, *e.g.,* price, volatility, and relative liquidity
* the size and type of transaction
* the number of markets checked
* the information reviewed to determine the current market for the subject security or similar securities
* accessibility of the quotation
* the terms and conditions of the order
* review of multiple market venues if they are available
* contact with other dealers
* the liquidity of the bonds
* size of the transaction
* reasonable mark-ups/mark-downs
* the customer's instructions and expectations
* the availability of pricing of recent sales in the same, similar, or benchmark securities (*i.e.,* EMMA)

Other considerations for best execution include the following:

* In any customer transaction, Company is prohibited from interjecting a third party between itself and the best market for the security inconsistent with the factors above (interpositioning). This does not prohibit the use of broker's brokers unless it is inconsistent with the best execution obligation.
* Customer orders should be executed promptly, considering prevailing market conditions; certain conditions may necessitate additional time to ascertain the best market.
* "Markets" include a variety of venues which may include broker's brokers; alternative trading systems; or other counterparties. Best execution involves considering a wide variety of venues without considering that some venues have less relevance.
* Best execution requirements do not apply to customer orders where the customer designates a particular market for execution; such orders should have prompt processing in accordance with the customer's terms.
* The requirements of MSRB Rule G-18 do not apply to:
  + Municipal fund securities
  + Transactions with SMMPs that have provided the required affirmations
  + Transactions with other broker-dealers

Orders are not required to be exposed to every available market.

* More than one market should be checked
* Expose customer orders to multiple offerings or bids
* Show external offerings and bids to retail customers
* Evaluate offers or bids versus relevant market information to determine whether other markets or dealers should be checked
* Evaluate pricing

Where price information for a security is limited because of infrequent trading or other factors, the following may be considered:

* Prices from or recent transactions with other dealers
* Recent Firm executions of the same or similar securities
* Prices on similar securities
* Prices available from services such as EMMA

When there are extreme market conditions (*e.g.,* a shortage of liquidity and divergent prices during periods of significant rating changes or interest rate movements or other market-wide events), the following apply:

* Treatment of customer orders must remain fair, consistent and reasonable.
* Any changes to trading protocols should be reviewed by the supervisor to consider the facts and circumstances of market conditions and any changes needed.
* Any revised order handling procedures during extreme market conditions will be disclosed to customers outlining the differences from normal market conditions and when revised procedures will be activated.

Traders have an obligation to document the basis for pricing of orders. This may include screenshots documenting current/recent pricing of the securities and may include:

* Bids/offers from other dealers
* Recent executions of the same or similar securities at the Company
* EMMA pricing
* Other sources of pricing

### 13.3.6 Rule G-20 - Gifts

Gifts relating to Company's business are limited to $100 per year per person. Employees are required to notify Compliance of gifts relating to customers or prospective customers prior to giving the gift.

The following are excluded from the $100 limitation on gifts:

* **Normal business dealings:** Occasional gifts of meals or tickets to theatrical, sporting, and other entertainment hosted by the Company or an employee at legitimate business functions that are IRS-deductible business expenses. Such gifts may not be so frequent or extensive to raise questions of propriety.
* **Transaction-commemorative gifts:** Decorative items commemorating the transaction such as plaques or desk ornaments.
* **De minimis gifts:** Gifts of de minimis value (pens, notepads, *etc.*).
* **Promotional gifts:** Nominal value items displaying Company's corporate or other business logo (must be valued considerably below $100 to be considered nominal).
* **Bereavement gifts:** Gifts that are reasonable and customary for the circumstances.
* **Personal gifts:** Gifts of a personal nature given upon infrequent life events (wedding, birth of child, *etc.*).

Limitations on gifts also do not apply to compensation paid as a result of contracts of employment involving compensation for services rendered by another person; a written agreement must precede payment of compensation.

Dealers and municipal advisors are sometimes asked by issuers or their officials to make donations to charitable organizations. While this is not considered a political contribution, it may be considered an indirect gift or gratuity under Rule G-20 which limits these activities to $100. Any such requests should be cleared with Compliance prior to contributing.

### 13.3.7 Rule G-21 Advertising

Advertising is any material (other than listings of offerings) published or used in any electronic or other public media, or any written or electronic promotional literature distributed or made generally available to customers or the public, including any notice, circular, report, market letter, form letter, telemarketing script, seminar text, press release concerning the products or services of the broker, dealer or municipal securities dealer, or reprint, or any excerpt of the foregoing or of a published article, or social media. The term does not apply to preliminary official statements or official statements but does apply to abstracts or summaries of official statements, offering circulars and other such similar documents prepared by brokers, dealers or municipal securities dealers. A **Form Letter** is any written letter distributed to 25 or more persons within any period of 90 consecutive days.

All advertising involving municipal securities must be approved in writing by a Compliance-designated municipal securities principal or general securities principal prior to first use.

Some of the requirements that apply to advertising of municipal securities include:

* An advertisement must be based on principles of fair dealing and good faith, be fair and balanced and provide a sound basis for evaluating the facts about any particular municipal security or type of municipal security, industry, or service.
* A dealer may not distribute advertising that includes any untrue statement of material fact or is otherwise false or misleading.
* A dealer may not omit any material fact or qualification if such omission, in light of the context presented, would cause the advertisement to be misleading.
* An advertisement may not contain any false, exaggerated, unwarranted, promissory or misleading statement or claim.
* A dealer may not limit the types of information placed in a legend or footnote of an advertisement so as to inhibit a customer's or potential customer's understanding of the advertisement.
* An advertisement must provide statements that are clear and not misleading within the context that they are made.
* The advertisement must provide a balanced treatment of the benefits and risks, and the advertisement must be consistent with the risks inherent to the investment.
* A dealer must consider the audience to which the advertisement will be directed and that the advertisement provide details and explanations appropriate to that audience.
* An advertisement may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast.
* An advertisement may not include a testimonial unless it satisfies certain conditions.
* Advertising that includes yield is subject to certain requirements regarding disclosing the basis of the yield.
* Advertising regarding new issues is subject to certain disclosures regarding price or yield and must include an indication, if applicable, that securities shown may no longer be available at the time of publication or may be available from the syndicate at a price or yield different from that shown in the advertisement.
* If bonds are subject to the alternative minimum tax, a statement is to be included in the advertisement to that effect.
* Advertising involving municipal fund securities may be subject to additional requirements, including filing advertising with FINRA, if it discusses underlying investment company securities. See the section *14.15 Municipal Funds* - *Advertising Municipal Fund Securities* for more information.

Compliance should be consulted regarding questions about advertisements that include municipal securities.

## 13.4 MSRB Rule G-3 – CE

Associated Persons, including Representatives and Principals, involved with municipal securities activities will be subject to continuing education requirements for covered persons. The same Regulatory Element and time periods as discussed in Section 4.37 of this manual are also required under MSRB Rule 3.

Firm Element continuing education covers, at minimum, the following:

* General investment features and associated risk factors
* Suitability and sales practice considerations
* Applicable regulatory requirements
* Ethics and professional responsibility

Company must ensure firm element training is completed by December 31 each year. Records of completion of training will be maintained in Company’s CE records.

## 13.5 MSRB Rules

MSRB Rules are accessible via their web site at [www.msrb.org](http://www.msrb.org) under Rules and Guidance.

## 13.6 Electronic Mail Contact – Form A-12

The Company will maintain and update the Electronic Mail Contacts whenever changes occur.

The Company appoints Morris Monroe as its Primary Electronic Mail Contact.

On an annual basis, Compliance will affirm contact information electronically on Form A-12 regarding the following contact persons:

* Primary regulatory contact (must be a registered municipal principal)
* Master account administrator
* Billing contact
* Compliance contact
* Primary data quality contact

Changes will be filed within 30 days of information becoming inaccurate. Company may, at its discretion, also provide one or more of the following contacts: optional regulatory contact; data quality contact; or technical contact. Compliance is responsible for making the required filings and retaining records of contact information and filings. The first Form A-12 must be completed by August 10, 2014.

## 13.7 MSRB Assessments and Fees

The DMP will review all MSRB assessments and fees when received and ensure that they are paid on a timely basis.

## 13.8 Rule G-15

### 13.8.1 Transactions in Below-Minimum Denominations

On January 30, 2002, the Securities and Exchange Commission approved rule changes concerning minimum denominations filed by the Municipal Securities Rulemaking Board (“MSRB”). The rule changes consist of an amendment to **Rule G-15**, on confirmation, clearance, settlement, and other uniform practice requirements with respect to transactions with customers, and a **Rule G-8** recordkeeping requirement.

The Company may not sell municipal securities to customers below the minimum denomination for securities issued after June 1, 2002, with limited exceptions explained below.

**Exceptions**

The prohibition does not apply to the *purchase* of securities from a customer in an amount below the minimum denomination if the Company determines that the customer's position in the issue already is below the minimum denomination and that the entire position would be liquidated by the transaction. The prohibition does not apply to the *sale* of securities to a customer in an amount below the minimum denomination if the Company determines that the securities position being sold is the result of a customer liquidating a position below the minimum denomination. The Company is obligated to provide the customer a written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issue and that this may adversely affect the liquidity of the position unless the customer has other securities from the issue that can be combined to reach the minimum denomination.

For either exception Company may rely on customer account records in its possession or on a written statement provided by the customer selling the securities (in the first exception) or the party from which the securities are purchased (in the second exception).

**Written Disclosure**

Written disclosure about the potential effect on liquidity will be included on confirmations where a customer buys an amount below the minimum denomination. If the Company determines to provide a separate written disclosure, records of providing the disclosure will be retained by Operations for a minimum of three years.

### 13.8.2 Confirmations

At or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer shall give or send to the customer a written confirmation that complies with the requirements of Rule G-15. Further information related to markup pricing disclosures can be found in Section 13.12.4.

## 13.9 MSRB Rule G-37 - Political Contributions/Pay to Play

MSRB Rule G-37 specifies restrictions and requirements regarding political contributions to individuals who may influence the placement of municipal securities business as defined in the rule. The purpose of the rule is to sever any connection between political contributions and the awarding of municipal business. The rule does not prohibit political contributions; it does, however, prohibit Company from engaging in municipal business for two years with any issuer where contributions subject to this rule are made. Because Company does not want to be subject to a two-year restriction on its municipal business, employees are required to adhere to the requirements of the rule, and therefore consult with Compliance regarding any questions about the effect of the rule.

### 13.9.1 Definitions

*Municipal Finance Professional –* (“MFP): Any Associated Person engaged in:

* underwriting or trading (excluding trading with natural persons)
* financial advisory or financial consultant services for municipal issuers
* research or investment advice regarding municipal securities
* soliciting municipal securities business as defined in this section
* supervision of the above activities
* acting as CEO or a similar position or serving on a dealer's executive or management committee over the above activities.

RRs who sell municipal securities to individual investors are not included in this definition or the restrictions on political contributions. Company currently has no MFPs.

### 13.9.2 Types of Contributions

* Contributions" include any gift, subscription, loan, advance, or deposit of money or anything of value made: (i) for the purpose of influencing any election for federal, state or local office; (ii) for payment or reduction of debt incurred in connection with any such election; or (iii) for transition or inaugural expenses incurred by the successful candidate for state or local office. "State" includes any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, or any other possession of the United States. Contributions also include those made to bond ballot campaigns which typically occur as a result of a state or local government placing a ballot measure before voters to approve specified municipal borrowing. Contributions to bond ballot campaigns (for or against the ballot issue) include payment of debt occurred in connection with the initiative or payment of the costs of the initiative. In the case of an in-kind contribution, the value and nature of the goods or services provided including any ancillary services provided to, on behalf of, or in furtherance of the bond ballot campaign is reportable including the specific date on which such contributions were made.
* "In-kind" support or services may be regarded as political contributions. Examples include engaging in political activities during working hours such as fundraising, drafting speeches and solicitations, writing/reviewing/approving campaign memoranda, contracts, letters, talking points, campaign position papers, responding to campaign issues; using the Company's resources (administrative employees, phones, office space, and other services); approving campaign invoices/expenditures. In-kind contributions must be valued and generally must be recorded and reported in the same manner as other contributions.
* Contributions to an "official of an issuer" are subject to the rule. An "official of an issuer" is defined as any incumbent, candidate or successful candidate for elective office of the issuer, which office is directly or indirectly responsible for, or can influence the outcome of, the hiring of a dealer for municipal securities business. This includes any issuer official or candidate (or successful candidate) who has influence over the awarding of municipal securities business so that contributions to certain state-wide executive or legislative officials (including governors) would be included within the rule.
* Indirect contributions by affected employees are also subject to the rule, including contributions to a local political party who is soliciting contributions to specifically support an issuer official.
* Specifically excluded from this requirement are contributions by municipal finance professionals that do not exceed, in total, $250 to each official, per election, but only if the municipal finance professional is entitled to vote for such official. The MSRB has defined "entitled to vote" to mean the municipal finance professional's principal residence is in the locality in which the issuer official seeks election.
* The definition of "contribution" does not restrict the personal volunteer work of municipal finance professionals in political campaigns other than soliciting or coordinating contributions. However, if the resources of the Company are used (a political position paper is prepared by Company personnel, Company supplies or facilities are used, *etc.*) or expenses are incurred by a municipal finance professional in the course of the volunteer work, the value of the resources or expenses would be considered a contribution and could trigger the restriction on business.

Some of the key requirements that apply to the Company and its employees are summarized below.

* The types of public finance business included in this rule are acting as a negotiated underwriter (as manager or syndicate member), financial advisor or financial consultant, placement agent, and negotiated remarketing agent.
* The rule applies to contributions made by any PAC controlled by the Company, public finance professionals, municipal traders and professionals, the Company's executive committee, and anyone deemed to be a Municipal Finance Professional (MFP) as defined in the rule.
* Political contributions by the Company or affected employees must be cleared through Compliance prior to making the contribution.
* "Contributions" are defined by rule and the recipient of contributions ("official of the issuer") is also defined. Some minimal contributions ($250 or less) by affected employees who are contributing to officials for whom they may vote are excluded from the rule.
* The Company and its employees are prohibited from soliciting others to make contributions to an official of an issuer.
* Employees are prohibited from using Company resources (phones, email, computers, office space, *etc.*) for political activities subject to Rule G-37. This includes (but is not necessarily limited to) fund-raising; drafting speeches or fund-raising solicitations, writing campaign memoranda, contracts, letters, talking points, position papers, and responses to issues; approving campaign invoices and expenditures.
* The Company, its municipal finance professionals (MFPs), and affiliates are prohibited from soliciting any person or political action committee (PAC) to make or coordinate contributions to an official of an issuer with which the Company is engaged in business or is seeking to engage in business.
* The Company will be required to maintain internal records of affected employees and their contributions and report quarterly to the MSRB.
* The Company cannot pay compensation for soliciting municipal business to anyone who is not affiliated with the Company.

This rule prohibits among other things, a dealer from engaging in municipal securities business with an issuer within two years after any contribution to an official of such issuer by the dealer, any municipal finance professional associated with the dealer, and any Political Action Committee controlled by the dealer or any municipal finance professional (registered representative, officers, or solicitors of municipal securities), if the contribution does not meet the de minimis exemption. There is one de minimis exemption, such that, the prohibition does not apply if the only contributions to officials of issuers are made by municipal finance professionals entitled to vote for such officials, and provided each such contributions, in total, are not in excess of **$250.00** by each such municipal finance professional to each official of such issuer, per election (primaries and general elections are treated as separate elections for purposes of this section). This $250 limit also applies to any contributions to bond ballot campaigns (any fund, organization, committee that solicits or receives contributions to be used to support ballot initiatives seeking authorization for the issuance of municipal securities through public approval obtained by popular vote).

Section (i) of the Rule provides a procedure whereby dealers may seek relief from the appropriate enforcement agency of the Rule **G-37** prohibition on business, in limited circumstances. It shall be the responsibility of Morris Monroe as the Municipal Securities Principal for the Company to familiarize all registered representatives with the requirements of MSRB **G-37** and to monitor all political contributions made by registered representatives of the Company and shall report any such contributions within thirty (30) calendar days after the end of each calendar quarter using MSRB Form **G-37**.

All employees will sign an attestation annually indicating any political contributions. These attestations will be reviewed by Morris Monroe and initialed indicating said review. In keeping with this section, the Company shall file Form **G-37** within 30 calendar days after the end of each calendar quarter (January 31, April 30, July 31, and October 31). These forms are to be submitted electronically via the MSRB portal and G-37 Submission platform. In accordance with the MSRB Interpretations, charitable donations are not considered political contributions for purposes of Rule **G-37** and therefore are not covered by the rule.

Further, in accordance with the MSRB Interpretations with respect to bank dealer departments, for most bank dealer departments which deal only in municipal securities, there are no individuals who meet the definition of executive officer within Rule **G-37**. To the extent an inadvertent or erroneous contribution is made by an Associated Person that meets any of the related definitions, that person shall promptly notify his/her supervisor in writing and Morris Monroe, on behalf of the Company shall petition the MSRB for relief from the prohibitions on business. Such petition for relief from the ban on business shall include a detailed description of the steps taken by the Company to obtain a refund of the contribution, and a statement as to whether or not a refund has been received. Regardless of whether or not relief is granted by the MSRB of the ban on business, the Company shall still be required to report the contribution under Rule **G-37**, on Form **G-37** in accordance with the reporting requirements detailed above. Rule **G-37** does not define "municipal securities business" to include selling group member activities, therefore such activities would not be prohibited in the event of a contribution by a registered representative of the Company. Further in accordance with Rule **G-37** and **G-38**, the Company is prohibited from making direct or indirect payments to any person who is not an affiliated person of the dealer for a solicitation of municipal securities business on behalf of the Company. Solicitation is defined as any direct or indirect communication with an issuer for the purpose of obtaining or retaining municipal securities business.  The concept of solicitation under Rules **G-37** and **G-38** includes the element of intent in that the communication must have a purpose of obtaining municipal securities business.

## 13.10 Prices, Markups and Commissions

In accordance with Rule **G-30**, the Company when executing a transaction in municipal securities for or on behalf of a customer as agent shall make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions. If acting as a "broker’s broker," the Company shall be under the same obligation with respect to the execution of a transaction in municipal securities for or on behalf of a broker, dealer, or municipal securities dealer.  For principal transactions, Company shall not purchase municipal securities for its own account from a customer or sell municipal securities for its own account to a customer, except at an aggregate price (including any mark-up or mark-down) that is fair and reasonable.

Company is obligated to offer new issue bonds to customers at the initial offering price negotiated with the issuer of the bonds. Company is prohibited from taking new issues into inventory and then offering the bonds to customers at higher prices. Company may sell bonds higher than the offering price after trading commences in the secondary market.

Company is obligated to execute customer orders on a principal basis at a fair and reasonable (including mark-up or mark-down) price considering the prevailing market price. Traders are required to document how mark-ups/downs are calculated if not related to the presumptive prevailing market price. Alternative methods for documenting the presumptive market price are in "hierarchical" order with the first alternative to be used, and if not available the second may be used.

**Markups**

This section summarizes guidance included in the MSRB rule (G-30.06). The Rule should be consulted for detailed explanations.

(1) Presumptively the prevailing market price for a municipal security is established by referring to the dealer's contemporaneous cost when buying or contemporaneous proceeds when selling.

(2) Other evidence of the prevailing market price may be considered only where the dealer made no contemporaneous purchases or sales of the security.

(3) A dealer's cost is (or proceeds are) considered contemporaneous if the transaction occurs close enough in time to the subject transaction that it would reasonably be expected to reflect the current market price for the municipal security.

(4) When using a measure other than the dealer's own contemporaneous cost (or, in a mark-down, the dealer's own proceeds), Woodlands Securities Corp (*i.e.,* the trader) must be prepared to provide evidence that is sufficient to overcome the presumption that such contemporaneous cost (or proceeds) provides the best measure of the prevailing market price.

(5) The following types of pricing information must be considered (in the order presented) to determine prevailing market price:

1. Prices of any contemporaneous inter-dealer transactions in the municipal security in question;
2. In the absence of transactions described in (A), prices of contemporaneous dealer purchases (sales) in the municipal security in question from (to) institutional accounts with which any dealer regularly effects transactions in the same municipal security; or
3. In the absence of transactions described in (A) and (B), for actively traded municipal securities, contemporaneous bid (offer) quotations for the municipal security in question made through an inter-dealer mechanism, through which transactions generally occur at the displayed quotations.

A dealer may consider a succeeding category of pricing information only when the prior category does not generate relevant pricing information. Because of the lack of active trading in most municipal securities, it is not always possible to establish the prevailing market price for a municipal security based solely on contemporaneous transaction prices or contemporaneous quotations for the security. Accordingly, dealers may often need to consider other factors, below.

(6) Other factors that may be taken into consideration (not in any required order or combination) for the purpose of establishing the price from which a customer mark-up (mark-down) may be calculated, include but are not limited to:

* Prices, or yields calculated from prices, of contemporaneous inter-dealer transactions in a "similar" municipal security, as defined below;
* Prices, or yields calculated from prices, of contemporaneous dealer purchase (sale) transactions in a "similar" municipal security with institutional accounts with which any dealer regularly effects transactions in the "similar" municipal security with respect to customer mark-ups (mark-downs); and
* Yields calculated from validated contemporaneous inter-dealer bid (offer) quotations in "similar" municipal securities for customer mark-ups (mark-downs).

(7) Finally, if information concerning the prevailing market price of the subject municipal security cannot be obtained by applying any of the above factors, dealers may consider as a factor in assessing the prevailing market price of a municipal security the prices or yields derived from economic models (*e.g.,* discounted cash flow models) that take into account measures such as reported trade prices, credit quality, interest rates, industry sector, time to maturity, call provisions and any other embedded options, coupon rate, and face value; and consider all applicable pricing terms and conventions (*e.g.,* coupon frequency and accrual methods).

(8) Because the ultimate evidentiary issue is the prevailing market price, isolated transactions or isolated quotations generally will have little or no weight or relevance in establishing prevailing market price. In addition, in considering yields of "similar" municipal securities, except in extraordinary circumstances, dealers may not rely exclusively on isolated transactions or a limited number of transactions that are not fairly representative of the yields of transactions in "similar" municipal securities taken as a whole.

**Similar Municipal Securities**

(1) A "similar" municipal security should be sufficiently similar to the subject security that it would serve as a reasonable alternative investment to the investor. At a minimum, the municipal security or securities should be sufficiently similar that a market yield for the subject security can be fairly estimated from the yields of the "similar" security or securities. Where a municipal security has several components, appropriate consideration may also be given to the prices or yields of the various components of the security.

(2) The degree to which a municipal security is "similar" to the subject security may be determined by all relevant factors, including but not limited to the following:

1. Credit quality considerations, such as whether the municipal security is issued by the same or similar entity, bears the same or similar credit rating, or is supported by a similarly strong guarantee or collateral as the subject security (to the extent securities of other issuers are designated as "similar" securities, significant recent information concerning either the "similar" security's issuer or subject security's issuer that is not yet incorporated in credit ratings should be considered (*e.g.,* changes to ratings outlooks));
2. The extent to which the spread (*i.e.,* the spread over an applicable index or U.S. Treasury securities of a similar duration) at which the "similar" municipal security trades is comparable to the spread at which the subject security trades;
3. General structural characteristics and provisions of the issue, such as coupon, maturity, duration, complexity or uniqueness of the structure, callability, the likelihood that the municipal security will be called, tendered or exchanged, and other embedded options, as compared with the characteristics of the subject security;
4. Technical factors such as the size of the issue, the float and recent turnover of the issue, and legal restrictions on transferability as compared with the subject security; and
5. The extent to which the federal and/or state tax treatment of the "similar" municipal security is comparable to such tax treatment of the subject security

(3) When a municipal security's value and pricing is based substantially on, and is highly dependent on, the particular circumstances of the issuer, including creditworthiness and the ability and willingness of the issuer to meet the specific obligations of the security, in most cases other securities will not be sufficiently similar, and therefore, pricing information with respect to other securities may not be used to establish the prevailing market price.

## 13.11 RTRS Transaction Reporting

All sales or purchases of municipal securities shall be reported in accordance with Rule **G-14** and **G-12(f)**, Transaction Reporting Procedures through its clearing firm. It shall be the responsibility of Morris Monroe to review all purchases and sales to insure the proper reporting. In addition, Compliance will follow with review of the daily trade blotters to ensure each applicable muni trade submitted though HTS is also reported to RTRS.

The Company has reviewed all areas of its business activities to determine the effect of the amended reporting rules including policies and procedures and the volume of municipal activity affected by the new rules. Company shall not distribute or publish, or cause to be published, any report of a purchase or sale unless it has reason to believe that the purchase or sale was actually affected and has no reason to believe that the reported transaction was fictitious or in furtherance of any fraudulent, deceptive or manipulative purpose. System outages should be reported to the MSRB at (703) 797-6600 with pertinent information related to the outage, including date and time of outage, when it was discovered and how it is being resolved. Periodic reviews of transactions will be conducted and saved in a specified file as evidence of review.

Confirmations shall be given or sent to the customer for each municipal transaction by the Company’s clearing firm with the provisions set forth in **Rule G-15**.

The following practices are prohibited by employees of the company:

a. Improper use of municipal securities or funds held on behalf of another person.

b. Offer of guarantee or guarantee against loss.

c. Sharing in the profits or losses of an account unless it is in a private capacity in an investment partnership or joint account as long as the participation is based on a direct financial contribution made to the partnership or account.

d. Directly or indirectly, give or permit to be given anything or service of value, including gratuities, in excess of **$100**, per year to a person other than an employee or partner of such municipal securities broker or dealer pursuant to the provisions of Rule **G8** and **G20**. In addition, these provisions, along with any non-cash compensation will conform to FINRA Rules 2710, 2820, and 2830 for similar guidelines and recordkeeping requirements.

### 13.11.1 RTRS Trade Processing Guidelines *(01/26/09)*

In an effort to streamline operations and meet regulatory requirements, the Company has adopted the following procedures to facilitate the processing of municipal bond trades:

1. All related trades must be executed through the trading desk at the home office only

2. Obtain from Associated Person list of customers and amounts.

3. Obtain trade approval from Morris Monroe

4. Coordination between wholesaler desk and Company trading desk must take place to facilitate the timely reporting of the dealer side of the trade. Specifically, this means Trading/Operations (or their replacement if out) shall directly speak telephonically (with subsequent email) with the wholesale trader prior to execution to

a). ensure CUSIP is set up in HTS system prior to trade;

b). verify trade time, in seconds, and

c). verify if position is a NEW ISSUE.

5. If bond is a New Issue:

a). Mark on ticket if new issue.

b). Upon receipt of the Official Statement (“O.S.”), via email from wholesaler, Trading/Operations, will forward to list of applicable customers via email, or direct US Mail.

c). Pursuant to MSRB **Rule G-32** regarding forwarding of Official Statements and **G-8** and **G-9** (for recordkeeping)**,** log the forwarding of the O.S. in WinOps under the Send/Receive Log with the pertinent information and how forwarded.

d). Laura Hendricks will further review each trade in the RTRS platform to verify any new issue and review the Send/Receive Log for entry of any official statements sent.

e). Trading/Operations will segregate New Issue tickets until O.S. an Action/Task will be setup in Outlook and/or the CRM due prior to S/D to ensure O.S. sent prior to S/D for each New Issue. Laura Hendricks will initial each review of the Official Statement Sent Log on the Muni Review record as further oversight to ensure they are sent timely. *(Paragraph e - 07/13/09).*

6. Input Dealer side of trade in HTS Trade Module first.

7. Input Customer side of trade in HTS Trade Module when Dealer side is complete.

8. A Trading/Operations employee is designated as the email recipient of the RTRS Trade Affirmation messages. Email messages are sent by RTRS promptly after submission of the trade to the RTRS trading platform, as submitted by HTS on behalf of Company. The designee is to verify and review the email message as to whether to the trade is affirmed or questionable. The designee is reviewed at least annually in the MSRB A-12 review and submission.

If trade is not affirmed:

a). determine reason (which is contained in email message from RTRS).

b). follow up with both HTS and wholesaler if applicable to determine if a correction is in order.

c). verify trade is corrected and review new RTRS Trade Notice is Affirmed

## 13.12 Disclosures

Company and its RRs are required to make certain disclosures when dealing with municipal products.

### 13.12.1 Rule G-32 – New Issue Disclosures

Company will not sell any new issue in municipal securities to a customer unless the following is delivered to the customer no later than the settlement of the transaction:

1. A copy of the official statement in final form or if an official statement in final form is not prepared a written notice to that effect together with an official statement in preliminary form if any provided, however that if an official statement in final form is being prepared that qualifies for the exemption set forth in paragraph (iii) of section (d) (1) of the Rule 15c2-12, if the Company: *(New Issue Disclosure Reporting Period begins with the start of marketing of this new issue of securities by the broker-dealer or bank that is underwriting these securities for the issuer and ends 25 days after all of the securities in the new issue have been issued).*

- delivers to the customer no later than the settlement of the transaction a copy of an official statement in preliminary form, if any, and written notice that the official statement in final form will be sent to the customer within one business day following receipt by the Company.

- sends to the customer a copy of the official statement in final form, by first class mail or other equally prompt means, no later than the business day following receipt thereof by the Company.

- sends a notice advising the customer:

(1) How to obtain the official statement from EMMA, which notice may be combined, at the election of the broker, dealer or municipal securities dealer, with notice of the availability of the official statement from a qualified portal; and

(2) That a copy of the official statement will be provided by the Company or municipal securities dealer upon request.

Notwithstanding the provisions of subsection (a)(i) of Rule 32, the delivery obligation thereunder shall be deemed satisfied if the following conditions are met:

(A) The offered municipal securities being sold are not municipal fund securities; and

(B) The underwriter has made the submissions to EMMA required under paragraph (b)(i)(A) or (b)(i)(B)(1) of Rule 32; provided that the condition in this paragraph (B) shall apply solely to sales to customers by brokers, dealers and municipal securities dealers acting as underwriters in respect of the offered municipal securities being sold.

2. In connection with a negotiated sale, the following information concerning the underwriting arrangements: (a) the underwriting spread; (b) the amount of any fee received by the Company as agent for the issuer; (c) the initial offering price for each maturity in the issue that is offered or to be offered in whole or in part by the underwriters, including maturities that are not reoffered.

### 13.12.2 Rule G-47 Time of Trade Disclosures

**Rule G-47**(a) sets forth the general time-of-trade disclosure obligation as currently set forth in the MSRB’s interpretive guidance. The rule states that dealers cannot sell municipal securities to a customer, or purchase municipal securities from a customer, without disclosing to the customer, at or prior to the time-of-trade, all material information known about the transaction and material information about the security that is reasonably accessible to the market. The rule applies regardless of whether the transaction is unsolicited or recommended, occurs in a primary offering or the secondary market, and is a principal or agency transaction (and applies to 529 Plans as well). The rule provides that the disclosure can be made orally or in writing.

**Rule G-47**(b) states that information is considered to be “material information” if there is a substantial likelihood that the information would be considered important or significant by a reasonable investor in making an investment decision. The rule defines “reasonably accessible to the market” as information that is made available publicly through “established industry sources.”

The MSRB maintains the Electronic Municipal Market Access system (EMMA) to make information available to the marketplace including official statements, issuer filings, and real-time transaction pricing.

For secondary market transactions, dealers are obligated to obtain, analyze and disclose all material facts known to the dealer through industry resources. This includes such information available from EMMA; however, simply directing the customer to the EMMA website is not sufficient disclosure. The level of inquiry for material information will depend on varying factors such as less inquiry for an AAA general obligation bond and more inquiry for a non-rated conduit issue or a more complex security. The obligation to disclose information for secondary market transactions includes the following:

* A complete description of the security including key terms and features that likely would be considered significant by a reasonable investor and facts that are material to assessing the potential risks of the investment (i.e. call features, non-standard features that may affect price or yield calculations, infrequent trading, tax status, etc.);
* Credit risk and rating including the rating or lack of rating, change of rating, identity of any credit enhancer or liquidity provider;

Disclosures must be made orally or in writing at the “time of trade” (at or before the point at which the investor and the dealer agree to make the trade). The Company Municipal Bond Disclosure Form may initially be used for this purpose, and to obtain client authorization to receive information via email, and as evidence of disclosure. Subsequently, bond information with the terms and items may be given to clients in writing or verbally for such disclosure. Such notices or any other proof of disclosure will be maintained in a central location. Tickets will be marked that EMMA, Bloomberg, or another source was checked for disclosures and that such disclosures were made to the customer and how disseminated. If an Associated Person becomes aware of non-public material information, the Associated Person should contact Compliance immediately and maintain the confidentiality of the information.

Other disclosure examples are provided by the MSRB to describe information that may be material in specific scenarios and require time of trade disclosures to a customer. This list is not exhaustive and other information may be material to a customer in these and other scenarios.

1. **Market discount.** The fact that a municipal security bears market discount. (The amount of market discount is equal to the excess, if any, of the stated redemption price at maturity over the basis of the security immediately after its purchase by the investor.)
2. **Variable rate demand obligations.** A description of the basis on which periodic interest rate resets are determined and the role of the remarketing agent.
3. **Auction rate securities.** Features of the auction process that likely would be considered significant by a reasonable investor and the basis on which periodic interest rate resets are determined. Additional facts that may also be considered material are the duration of the interest rate reset period, information on how the "all hold" and maximum rates are determined, any recent auction failures, and other features of the security found in the official documents of the issue.
4. **Credit or liquidity enhanced securities.** The identity of any credit enhancer or liquidity provider, terms of the credit facility or liquidity facility, and the credit rating of the credit provider or liquidity provider, including potential rating actions (*e.g.,* downgrade).
5. **Insured securities.** The fact that a security has been insured or arrangements for insurance have been initiated, the credit rating of the insurance company, and information about potential rating actions with respect to the bond insurance company.
6. **Original issue discount bonds.** The fact that a security bears an original issue discount since it may affect the tax treatment of a municipal security.
7. **Securities sold below the minimum denomination.** The fact that a sale of a quantity of municipal securities is below the minimum denomination authorized by the bond documents and the potential adverse effect on liquidity of a customer position below the minimum denomination. See also Rule G-15(f).
8. **Securities with non-standard features.** Any non-standard feature of a municipal security. Additionally, if price/yield calculations are affected by anomalies due to a non-standard feature, this also may be material information about the transaction that must be disclosed to the customer.
9. **Bonds that prepay principal.** The fact that the security prepays principal and the amount of unpaid principal that will be delivered on the transaction.
10. **Callable securities.** The fact that a municipal security may be redeemed prior to maturity in-whole, in-part, or in extraordinary circumstances, including sinking fund calls and bonds subject to detachable call features.
11. **Put option and tender option bonds.** Information concerning the put option or tender option features.
12. **Stripped coupon securities.** Facts concerning the underlying securities which materially affect the stripped coupon instruments. The unusual nature of these securities and their tax treatment warrants special efforts to provide written disclosures.
13. **The investment of bond proceeds.** Information on the investment of bond proceeds.
14. **Issuer's Intent to Pre-refund.** An issuer's intent to pre-refund an issue.
15. **Failure to make continuing disclosure filings.** Discovery that an issuer has failed to make filings required under its continuing disclosure agreements.

### 13.12.3 Rule G-10 Client Education and Protection

Company shall provide in writing (which may be electronic) to each municipal customer, including 529 Plans, once every calendar year, the following items of information:

* A statement that it is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board;
* The website address for the Municipal Securities Rulemaking Board; and
* A statement as to the availability to the customer of an investor brochure that is posted on the website of the Municipal Securities Rulemaking Board that describes the protections that may be provided by the Municipal Securities Rulemaking Board rules and how to file a complaint with an appropriate regulatory authority.

### 13.12.4 Pricing Disclosure

Pursuant to MSRB Rules G-15 and 30, the amount of mark-ups and mark-downs will be disclosed on retail customer confirmation from the custodian *(eff 05/14/18)*. Two additional disclosures include: (1) a reference (or hyperlink if the confirmation is electronic) to a FINRA web page containing publicly available trading data for the security traded; and (2) the execution time expressed to the second. Disclosure is required if Company executes one or more offsetting principal trades in the same security on the same trading day which, in aggregate, meet or exceed the size of the customer trade. Disclosure may also be required because of an offsetting principal trade executed by an affiliate that did not occur at arm's length [defined in FINRA Rule 2232(f)(3)]. Disclosure is not required for principal trades executed on a trading desk functionally separate from a trading desk that executes customer trades. It is also not required for bonds acquired in a fixed-priced offering and sold to non-institutional customers at the same offering price the same day Company acquires the bonds. Trades will be reviewed post trade by Compliance to ensure markup is disclosed on the confirmation and if not, Operations will initiate a cancel and rebill to generate a corrected confirm.

## 13.13 Rule D-15 & G-48 Sophisticated Municipal Market Professionals (SMMPs)

**Rule D-15** defines the term Sophisticated Municipal Market Professional (“SMMP”) as an institutional investor of the dealer that is:

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

An SMMP may affirmatively indicate that it is exercising independent judgment in evaluating the recommendations of a BD or municipal securities dealer. This may be documented by the SMMP's oral affirmation recorded in the account's records on a trade-by-trade basis or on an account-wide basis by having the SMMP sign the Model Sophisticated Municipal Market Professional Affirmation for Institutional Customers.

The SMMP must affirmatively indicate that it:

1. Is exercising independent judgment in evaluating:
   1. recommendations;
   2. the quality of execution of transactions; and
   3. the transaction price for non-recommended secondary market agency transactions as to which (i) Company's services have been explicitly limited to providing anonymity, communication, order matching and/or clearance functions and (ii) Company does not exercise discretion as to how or when the transactions are executed; and
2. Has timely access to material information that is available publicly through established industry sources as defined in MSRB Rule G-47(b)(i) and (ii).

As part of the reasonable basis analysis, the amount and type of municipal securities owned or under management by the customer should be considered.

Pursuant to **Rule G-48**, Transactions with Sophisticated Municipal Market Professionals,

A broker, dealer, or municipal securities dealer’s obligations to a customer that it reasonably concludes is a Sophisticated Municipal Market Professional, or SMMP, shall be modified as follows:

For SMMPs, there are certain disclosures that do NOT have to be made:

1. *Time of Trade Disclosure* (material information that is reasonably accessible to the market).
2. *Transaction Pricing* (ensure that transactions meeting all of the following conditions are affected at fair and reasonable prices):
   1. the transactions are non-recommended secondary market agency transactions;
   2. the broker, dealer, or municipal securities dealer's services with respect to the transactions have been explicitly limited to providing anonymity, communication, order matching, and/or clearance functions; and
   3. the broker, dealer, or municipal securities dealer does not exercise discretion as to how or when the transactions are executed.
3. *Suitability*. Company has no obligation under Rule G-19 to perform a customer-specific suitability analysis.

The following describes how SMMPs are treated differently from other customers under specific MSRB rules. Refer to the interpretation for more explanation of these specific applications of the SMMP concept.

|  |  |
| --- | --- |
| **Rule G-13** | Company must apply the same standards to an SMMP's quotation as if the quotation were made by another BD or municipal securities dealer. |
| **Rule G-18** | If a dealer effects non-recommended secondary market transaction for SMMPs and its services have been explicitly limited to providing anonymity, communication, order matching, and/or clearance functions and the dealer does not exercise discretion, the dealer is not required to take further actions on individual transactions to ensure that its agency transactions are affected at a fair and reasonable price. |
| **Rule G-19** | For a recommended security, the dealer is not required to make a suitability determination. |
| **Rule G-48** | Time of trade disclosure, transaction pricing, and suitability obligations do not apply |

When the Company has reasonable grounds for concluding that an institutional customer (i) has timely access to the publicly available material facts concerning a municipal securities transaction; (ii) is capable of independently evaluating the investment risk and market value of the municipal securities at issue; and (iii) is making independent decisions about its investments in municipal securities, and other known facts do not contradict such a conclusion, the institutional customer can be considered a sophisticated municipal market professional (“SMMP”) and any transaction will be evaluated independently by Morris Monroe.

## 13.14 MSRB Rule A-15 – Notice of Change in Status

Company shall notify MSRB if it ceases to engage in municipal securities activities or, if applicable, municipal advisory activities, whether voluntarily or because it has been barred or suspended from engaging in those activities by the appropriate regulatory agency, judicial authority or otherwise. Other notices required also include if Company has been expelled or suspended from membership or participation in a registered securities association, or if applicable, a national securities exchange, or if there is a change in Company name or address. Any notification required shall be provided in a written statement setting forth Company’s name, address, Commission registration number, and a description of, and the reasons for, its change in status along with any required fees owed to the MSRB.

## 13.15 Municipal Funds

Pursuant to MSRB **Rule G-17**, the Company and its Associated Persons shall deal fairly with all persons and shall not engage in any deceptive, dishonest or unfair practice when considering the appropriateness of day-to-day sales practices with respect to all municipal securities transactions including municipal fund securities.

### 13.15.1 Guidelines*:*

Associated Persons must be appropriately licensed or if the municipal sales activity of the Associated Person is limited only to transactions in 529 Plans, then the SIE and Series 6 license qualify.

1. **Recommending Transactions**: Under Rule **G-19**, recommendations to a customer for a municipal fund transaction must be based on reasonable grounds for believing that the recommendation is suitable based upon information available from the issuer of the security or otherwise and the facts disclosed by or otherwise known about the customer. Such factors to be considered in determining suitability are the customer’s financial status, tax status, and investment objectives, as well as any other information reasonable and necessary in making the recommendation. Municipal securities funds are designed for a specific purpose and Associated Persons should determine that this purpose generally matches the customer’s investment objective. In particular, Associated Persons must bear in mind the potential tax consequences of a customer purchasing a Section 529 Plan and that the customer’s investment objective may not involve the use of such funds for qualified higher education expenses.

In addition, if various fund classes are offered, information about the beneficiary and the number of years until funds will be needed would be relevant in weighing which fund class to choose for a municipal fund transaction. Typically, 529 plans may have three or more different share classes (*e.g.,* A, B, C) with different fees and expenses. RRs must consider whether a particular class is appropriate before recommending it to a customer. "A" shares may be more economical over a longer period of time than "C" shares that do not offer cost reductions such as breakpoints.

Consideration of any state income tax benefit that might be obtained by purchasing an in-state plan should be weighed against other benefits that might be provided by a recommended out-of-state plan, such as investment performance, investment choices, fees and expenses, or other factors. Excessive rollovers or transfers from one plan to another with such frequency as to lose the federal tax benefit are strictly prohibited.

All 529 Plan transactions must be approved by Morris Monroe as the Municipal Principal as evidenced either on the direct application or the New Account Form as either prior or post application approval. Approval can be post application to the fund; however, copies must be forwarded to the home office for post approval (which may include scanning into WinOps to facilitate review).

1. **Advertising Municipal Funds Securities**: All municipal fund securities retail communication must be submitted to the Home Office, prior to use, for approval by the Municipal principal, Morris Monroe, and will be evidenced by his initials. Pursuant to MSRB Rule **G-21**, all retail communication must not publish its facilities, services, or skills with respect to municipal fund securities that is materially false or misleading or publish any material about a municipal fund security known to be materially false or misleading. Any such material produced by the Company will be maintained for a period of three years as a part of the Company’s records.

The following is a summary of requirements for municipal fund securities advertising (other conditions may apply). Compliance approval is required prior to publication of any municipal fund advertisement.

| **Subject** | **Rule** | **Requirement** |
| --- | --- | --- |
| General product advertisement disclosures | G-21(e)(i) | * investor considerations * more information available in OS * source of OS is a BD underwriter * read the OS carefully |
| Product specific advertising disclosures | G-21(e)(i) | * source of OS if OS available * home state plan benefits * if a money market fund, enhanced disclosure about risks for each of three categories, no FDIC guarantee, possibility of loss, imposition of a liquidity fee or suspension of redemptions and no expectation the underlying fund sponsor will provide financial support to the underlying fund |
| Performance disclosures | G-21(e)(i)(A)(3)(a) | * legend about past performance doesn't guarantee future performance * investment return and value may fluctuate resulting in loss * current performance may be lower or higher than data included in advertisement * if total return quoted is not current, a toll-free number or website where more current information is available * may provide a hyperlink to a web site including current total return quotations * if sales load or nonrecurring fee is charged, maximum amount and if not included in performance statements, disclosure is not included * total annual operating expense ratio (except for money market funds) |
| Out-of-State disclosures | G-21(e)(i)(A)(2)(b) | * whether home state offers other benefits such as financial aid, scholarship funds, and protection from creditors |
| Format of disclosure | G-21(e)(i)(4) | Differing requirements for print and other advertising |
| Generic advertising (does not refer by name to any specific investment option or portfolio but includes name of dealer or other sponsor of the advertisement) | G-21(e)(i)(B)(1) | Does not require general disclosures |
| Blind advertisements (promote an issuer and its public purpose without naming a product or dealer) | G-21(e)(i)(B)(2) | Does not require general disclosures |
| Annual financial reports or similar information required by state law, rules, or regulations |  | Not considered an advertisement if provided solely as required by state laws, rules, or regulations |
| Communications with existing customers | G-21(e)(i)(B)(3) | Permits form letters that omit some or all required disclosures if sent to existing customers who have previously invested in municipal fund securities |
| Tax-related disclosures | G-21(e)(v) | If a product advertisement discusses tax benefits, include disclosure that benefits may be conditioned on meeting certain requirements and if specific benefits are described, include the factors that may materially limit their availability |

1. **Disclosures**: *Basic disclosure –*must include a statement to the effect that:

(a) an investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing;

(b) more information about municipal fund securities is available in the issuer's official statement;

(c) if the advertisement identifies a source from which an investor may obtain an official statement and the broker, dealer or municipal securities dealer that publishes the advertisement is the underwriter for one or more of the issues of municipal fund securities for which any such official statement may be supplied, such broker, dealer or municipal securities dealer is the underwriter for one or more issues (as appropriate) of such municipal fund securities; and

(d) the official statement should be read carefully before investing.

Associated Persons must disclose to customers the tax treatment of transactions. In addition to the federal tax treatment of withdrawals and the tax-deferral of the account, Associated Persons must disclose to a customer of an out-of-state Section 529 plan that depending upon the laws of the customer’s home state, favorable state tax treatment for investing in a Section 529 plan, may be limited to investments made in a Section 529 plan offered by the customer’s home state. In addition, Associated Persons must disclose the different type of fund classes, if applicable, to a Section 529 plan and the consequences of each. The 529 Plan Disclosure Form will suffice for the pertinent disclosures.

1. **Transactions**: Transactions for 529 plans are recorded in Company’s blotter records and are reviewed regularly by Compliance and at a minimum monthly.
2. **Rollovers**: A 529 savings plan may be rolled over and avoid tax consequences and other penalties if the funds are rolled over from one 529 plan to another state's 529 plan for the same beneficiary or to another 529 plan for a different beneficiary if certain conditions are met. RRs should consider the associated fees and charges assessed to assure such fees are appropriate.

## 13.16 Notifications to MSRB

Compliance will notify the MSRB in writing if the Company ceases to engage in business activities either voluntarily or because of being barred or suspended by a regulator from engaging in securities activities. Compliance will also promptly notify MSRB of any changes in name or address.

## 13.17 Rule G-8 - Books and Records

In accordance with Rule **G-8**, Morris Monroe is responsible person for ensuring the Company maintains the following municipal books and records: 1) Blotters, 2) Account records; 3) Securities records – through clearing firm; 4) Subsidiary records – through clearing firm; 5) Put options and repurchase agreements; 6) Records for agency transactions; 7) Principal transactions; 8) Syndicate transactions; 9) Confirmations and other notices to customers; 10) financial records; 11) customer account information; 12) Deliveries of Official Statements if applicable; 13) Political contributions and prohibitions on municipal securities business pursuant to Rule G-37; 14) Records concerning compliance with Rule G-20; 15) Records concerning Consultants pursuant to Rule G-38; 16) Telemarketing records and do-not-call lists.

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# 14. PRIVATE PLACEMENTS ACTIVITIES

## 14.1 Introduction

Private placements are unregistered, non-public securities offerings that rely on an available exemption from registration with the SEC under either Sections 3 or 4 of the Securities Act. Most private offerings are sold pursuant to one of three "safe harbors" under Rules 504, 506(b), and 506(c) of Regulation D. Private placements sold by FINRA member firms to individuals generally must file offering documents with FINRA.

This section provides information and procedures about private placements and the regulations that govern their offer and sale. A general understanding of private placements is helpful when considering whether to offer a specific issue to a customer. There are several general areas of requirements and limitations that affect most private placements.

* No general solicitation of purchasers other than those permitted under Rule 506(c) and 144A.
* Limits as to the size of certain offerings
* No advertising or general public meetings about specific private placements other than those permitted under Rule 506(c) and 144A.
* Issuers must provide information to potential investors
* Securities purchased are generally restricted as to resale
* Number of purchasers is restricted

All corporate securities offerings sponsored by the Company will be supervised by Morris Monroe or his designee who will be responsible for the structuring, packaging, and marketing of private placements to ensure compliance with SEC Rules 15c2-4, 10b-9 and public offerings sponsored by the Company, if any.

References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

## 14.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisor |
| **Statutes** | * SEC Regulation D – Private Offerings * SEC Rule 15c1-5, 15c1-6 - Disclosures * SEC Rule 15c2-4 – Escrow Accounts * SEC Rule 144 – Restricted Securities * SEC Rule 10b-10 – Riskless Principal Transactions * State Blue Sky Laws * FINRA Rule 5122 – PPs by Member Firm or Control Entities * FINRA Rule 5123 – FINRA Notice Filing Requirements for PPs |
| **Frequency** | * As required |
| **Actions** | * Execute an agreement with the issuer * Conduct due diligence or engage counsel or other qualified person to conduct due diligence * Establish a "separate account" or escrow account if applicable * Document the file regarding due diligence * Determine limitations on the offering, including integration issues and obtain representation letter from issuer if needed * Determine what information to provide to sales personnel * Form D Filings through Edgar Filing System |
| **Records** | * The deal file will include any offering information, the issuer agreement or Selling Agreement, any Escrow Agreement and account if applicable, offering document, and any due diligence documentation * Customer Account Documents * Customer Transactions * Form D Copies * Memorandum Transmittal Log * Escrow/Blotter Log |

## 14.3 Private Placement Activities

Section 4(2) of the Securities Act of 1933 provides an exemption from registration for securities not involving a public offering. In participating in private offerings on a "best efforts" or an "all or nothing" basis, each registered representative, subject to the supervision of Morris Monroe (or if any other principal designated as solely responsible for supervising such activities as a Private Securities Offering Principal who already has the Series 24 or after 10/1/18, passed the SIE and Series 24 exams), shall:

1. Verify that all offers and purchasers meet BI requirements.

2. Use reasonable diligence to ensure that all material facts relating to the issuer, the

Issuer’s securities and the offering have been accurately disclosed in the offering memorandum.

3. Refrain from making representations, oral or written, about the issuer or its securities other than as set forth in the offering memorandum or in publicly available and reliable, investment research materials and observe the prohibition against solicitation or advertising as set forth in Rule 502(c).

In relation to private offerings, it is the Company's intent from time to time to participate in the private placement of securities. At such time, no participation will be conducted unless the offering complies with state and federal rules and regulations. In accordance with the exemptive provisions of SEC Rules 15c3-1 and 15c3-3 the Company will participate in private offerings only on a "Best Efforts" basis as a placing agent only and will at no time participate in "Firm Commitment" underwritings. It is also the Company's intent to spend the time and effort necessary, based on its abilities, to research and evaluate each and every security vehicle which it intends to merchandise.

Furthermore, it is the Company's intent to offer to its customers only those securities in which the Company can ethically and morally have confidence. It is also the Company's intent to keep any and all Associated Persons highly informed with pertinent information related to each situation. This can be maintained through meetings, close supervision, and genuine interest on the part of each Associated Person. The purpose of the meetings will be to discuss thoroughly the nature of any security, underwriting or offering in which the Company participates. The discussions will include the type of investment, necessary investor BI, special risks, financial history, and other general information relative to keeping the merchandising of such vehicle on a high ethical basis.

All private placement activities will be supervised by Morris Monroe or his designee. Further, Morris Monroe or his designee will be responsible for the structuring, packaging, and marketing of private placements sponsored by the Company.

Further, the Company shall use its best efforts to inquire of an issuer as to whether any associated person of the issuer will be participating in the distribution of units or securities proposed to be offered by the Company. The Company shall take reasonable steps to require proof of compliance with SEC Rule 3a4-1 by the issuer and its associated person(s). The Company shall further have its legal counsel review the transaction for compliance with Rule 2420 (Dealing with Non-Members) of FINRA Rules.

The Company shall use its best efforts to perform a due diligence review of all prospective issuers prior to participating in the distribution of units or securities on behalf of such issuer, in an effort to determine that said issue is in compliance with SEC Rules 10b-5 and 10b-6 (Manipulative and Deceptive Devises and Contrivances and Prohibition Against Trading by Persons Interested in Distribution respectively).

In the case of a private placement of securities, whether in accordance with Regulation A, 144A, or D of the Securities & Exchange Act of 1933, the Company shall maintain a written record showing to whom confidential offering memorandums were distributed. Such record shall include the date distributed, the name of the offering, the memorandum number, the recipient name, address, and the name of the Associated Person distributing the memorandum to the customer and a notation shall be made [if destroyed] as to whether said memorandum was returned to the Company or destroyed by recipient, in the event the recipient does not purchase units in the private placement.

## 14.4 Best Interest and Suitability

A primary objective when selling a private placement is that all securities will be placed with suitable investors. The Associated Person recommending a private placement is responsible for determining that the recommendation is in the best interest for the investor based on information known about the potential investor. The Associated Person must consider minimum investor requirements and other BI standards for each private placement offering.

## 14.5 Handling of Customer Checks

With respect to customer checks and/or bank wires received by the Company, all customer checks shall be forwarded to Morris Monroe or his designee to ensure that all checks and/or bank wires are made payable to appropriate Escrow Account or Issuer. To the extent a customer check and/or bank wire is received by the Company which has been made payable to the Company instead of to appropriate Escrow Account or Issuer, the Company shall promptly return such check to be reissued payable to the appropriate Escrow Account or Issuer and forward same to appropriate Escrow Account or Issuer for deposit. In the case of a bank wire deposited to the Company instead of to the appropriate Escrow Account or Issuer, such transaction will be returned to sender with correct wire transfer instructions. Further, Morris Monroe or his designee, on behalf of the Company, shall forward written notice to the customer advising the customer of the error in format on the check and directing the customer to make all future checks payable directly to appropriate Escrow Account or Issuer. A copy of said correspondence shall be retained in the Company's files in accordance with SEC Rule 15c3-1, as amended. In the case of a bank wire deposited to the Company instead of to the appropriate Escrow Account or Issuer, such transaction will be returned to sender with correct wire transfer instructions. Furthermore, in the case of a transaction where the terms of the offering specify certain contingencies which must be met prior to disbursement or release of funds to the Sponsor or Issuer, all said customer funds received in connection with such offering will be placed on deposit in an escrow account in accordance with SEC Rule 15c2-4, until such time as the contingencies of the offering are met or the offering is terminated. In the case of an offering terminating prior to meeting the contingencies of the offering, in order to break escrow, all investor monies will be returned to the investor. Further, any investor checks received in connection with such an offering shall be made out to the escrow account. Any checks received from a customer, in connection with a contingent direct participation program, which are made out to a party other than the escrow account shall be immediately returned to the customer.

## 14.6 Offering Documents and Records

In addition to the Memorandum Distribution Record, the Company shall maintain copies of the following documents, where applicable, for all Private Placements of Corporate Securities distributed by associated persons of the Company:

1. List of investors, state of residency and number of units or amount purchased;

2. Copy of all investor checks or bank wires received and forwarded to escrow account;

3. Copy of the Cash Receipts and Delivered Blotter (which may be combined with #1 above);

4. Copy of the Private Offering Memorandum;

5. Memorandum Distribution log;

6. Copy of any Sales or Marketing Summaries distributed with the Private Offering Memorandum;

7. Incorporation Documents, if applicable;

8. Subscription Agreement with Power of Attorney, if applicable;

9. Share certificates, if applicable;

10. Escrow agreement;

11. Fictitious Business Name Statement, if applicable;

12. Legal opinion, if indicated;

13. Underwriting Agreement between Sponsor and Managing Placing Agent;

14. Underwriting Agreement between Managing Placing Agent and Participating Broker/Dealers;

15. Description of corporation;

16. Instructions for persons wishing to purchase;

17. Management agreements;

18. Form of Promissory Note to be utilized under the stated investment plan (if applicable);

19. Asset acquisition related documents such as:

a. Purchase Contract

b. Title Report and Title Insurance

c. Tenant Estoppel Certificates

d. All Affidavits

e. Loan Documentation

f. Appraisal of Property(ies)

g. Note and Deed of Trust

h. Lease(s) between Partnership and Seller(s)

i. Escrow Instructions

j. Mortgage Documents (all Wrap Agreements)

k. Other documents peculiar to the transaction.

The above nineteen documents may be combined in format and/or contained in offering materials.

## 14.7 Offering Memorandums

All private placement offering memorandums printed shall be sequentially numbered and the Company shall maintain a written record showing to whom each confidential private placement offering memorandum is distributed. Such record shall include the name of the private placement offering, the private placement offering memorandum number, the name and address of the recipient of the private placement offering memorandum, the date distributed, and the name of the Associated Person and broker-dealer, if other than Company, distributing the memorandum to the prospective investor.

If Company assists in or prepares the offering memorandum, it still has a duty to investigate the securities offered and representations made by the Issuer. In addition, the Company is subject to FINRA communications rules. "Red flags" (such as an issuer's refusal to provide information for the BD to meet its obligation to investigate or inaccurate financial statements) must be reviewed and simple reliance on representations by the issuer's management is not sufficient to meet the BD's investigatory obligations.

## 14.8 Offerings of Member’s Securities

These procedures are adopted to comply with the FINRA rules that apply to private offerings of the Company. Morris Monroe is responsible for ensuring any filings with FINRA are timely and accurate.

### 14.8.1 FINRA Rule 5122 - Private Placement of Securities by a Member Firm or Control Entity *(eff 06/17/09)*

In the event Company or a Control Affiliate is the **Issuer** in a private offering (member private offering or MPO), Company will adhere to the following:

(1) disclose to investors in a private placement memorandum, term sheet or other offering document the intended use of offering proceeds and the offering expenses;

(2) File FINRA’s Corporate Financing Department electronically (in pdf format) to [*corpfin@finra.org*](mailto:corpfin@finra.org)and must include its CRD number for identification purposes as part of the email submission the following:

* **Within 15 days of the first sale** such offering document (or notify FINRA that no such documents were used);
* Any Term Sheet or other such document.
* Any amendments or exhibits to the offering document with FINRA **within ten days** of being provided to any investor or prospective investor; and
* Any retail communication (defined in FINRA Rule 2210) that promotes or recommends the member private offering.

Excluded from this requirement are private offerings sold only to institutional investors [defined in FINRA Rule 4512(c)]; qualified purchasers [defined in the Investment Company Act of 1940]; investment companies [defined in the Investment Company Act] and qualified institutional buyers [defined in Rule 144A].

(3) Commit that at least 85 percent of the offering proceeds will be used for business purposes, which shall not include offering costs, discounts, commissions and any other cash or non-cash sales incentives.

#### Definitions

1. “Member Private Offering” (MPO) - a private placement of unregistered securities issued by a member firm or control entity.
2. “Private placement” - is defined as a nonpublic offering of securities conducted in reliance on an available exemption from registration under the Securities Act.
3. “Control entity” is any entity that controls or is under common control with a member firm, or that is controlled by a firm or its Associated Persons.
4. “Control” - mean a beneficial interest, as defined in Rule 5130(i)(1), of more than 50 percent of the outstanding voting securities of a corporation, or the right to more than 50 percent of the distributable profits or losses of a partnership or other non-corporate legal entity. The power to direct the management or policies of a corporation or partnership alone (e.g., the general partner of a partnership)—absent meeting the majority ownership or right to the majority of profits—would not constitute “control” as defined in Rule 5122. Performance and management fees earned by a general partner should not be included in the determination of partnership profit or loss percentages for purposes of the rule. However, if such performance and management fees are subsequently re-invested in the partnership, thereby increasing the general partner’s ownership interest, then such interests should be considered in determining whether the partnership is a control entity. *(In addition, for purposes of this rule, entities may calculate the percentage of control using a “flow through” concept by looking through ownership levels to calculate the total percentage of control. For example, if member firm ABC owns 50 percent of corporation DEF that in turn holds a 60 percent interest in corporation GHI, and ABC is engaged in a private offering of GHI, ABC would have a 30 percent interest in GHI (50 percent of 60 percent), and thus GHI would not be considered a control entity under this definition.)*

#### Exemptions

Rule 5122(c) provides a number of exemptions from the rule based on type of offerings and type of investors. First, the rule exempts MPOs sold solely to the following:

* Institutional accounts, as defined in FINRA Rule 4512(c);
* Qualified purchasers, as defined in Section 2(a)(51)(A) of the Investment Company Act;
* Qualified institutional buyers, as defined in Securities Act Rule 144A;
* Investment companies, as defined in Section 3 of the Investment Company Act;
* An entity composed exclusively of qualified institutional buyers, as defined in Securities Act Rule 144A; and
* Banks, as defined in Section 3(a)(2) of the Securities Act.

In addition, Rule 5122 excludes the following types of offerings, which do not raise the concerns raised by previous FINRA enforcement actions:

* Offerings of exempted securities, as defined by Section 3(a)(12) of the Exchange Act;
* Offerings made pursuant to Securities Act Rule 144A or SEC Regulation S;
* Offerings in which a firm acts primarily in a wholesaling capacity (*i.e.,* it intends, as evidenced by a selling agreement, to sell through its affiliate broker-dealers, less than 20 percent of the securities in the offering);
* Offerings of exempted securities with short term maturities under Section 3(a)(3) of the Securities Act;
* Offerings of subordinated loans under SEA Rule 15c3-1, Appendix D10;
* Offerings of “variable contracts,” as defined in FINRA Rule 2320(b)(2);
* Offerings of modified guaranteed annuity contracts and modified guaranteed life insurance policies, as referred to in Rule 5110(b)(8)(E);
* Offerings of securities of a commodity pool operated by a commodity pool operator, as defined under Section 1a(5) of the Commodity Exchange Act;
* Offerings of equity and credit derivatives, including OTC options, provided that the derivative is not based principally on the member or any of its control entities; and
* Offerings filed with FINRA under Rule 5110.

Finally, the rule exempts the following types of Member Private Offerings (MPOs), in which investors are expected to have access to sufficient information about the issuer and its securities, in addition to the information provided by a firm conducting the MPO:

* Offerings of unregistered investment-grade rated debt and preferred securities;
* Offerings to employees and affiliates of the issuer or its control entities; and
* Offerings of securities issued in conversions, stock splits and restructuring transactions made to existing investors without the need for additional consideration or investments on the part of the investor.

Types of exemptions may be combined without triggering the requirements of the rule. For example, if an MPO is offered to both qualified purchasers and employees or affiliates of the issuer or its control entities, as long as these purchasers qualify for exemptions under the rule, the MPO would be exempt from the rule's requirements.

### 14.8.2 FINRA Rule 5123 – Private Placement Filing Requirements *(eff 12/03/12)*

Private placements offered by the Company under an available exemption from registration under the Securities Act (“private placement”) must submit to FINRA’s Corporate Financing Department electronically (in pdf format) to [*corpfin@finra.org*](mailto:corpfin@finra.org)and must include its CRD number for identification purposes as part of the email submission the following:

* **Within 15 calendar days of the date of first sale** any private placement memorandum, term sheet or other offering document (or notify FINRA that no such documents were used);
* Any amendments or exhibits to the offering document with FINRA **within ten days** of being provided to any investor or prospective investor; and
* Any retail communication (defined in FINRA Rule 2210) that promotes or recommends the member private offering.

Excluded from this requirement are private offerings sold only to institutional investors [defined in FINRA Rule 4512(c)]; qualified purchasers [defined in the Investment Company Act of 1940]; investment companies [defined in the Investment Company Act] and qualified institutional buyers [defined in Rule 144A].

#### **Exemptions**

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

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

(A) Institutional accounts, as defined in [Rule 4512](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=9958)(c);

(B) Qualified purchasers, as defined in [Section 2(a)(51)(A)](http://sec.gov/about/laws/ica40.pdf) of the Investment Company Act;

(C) Qualified institutional buyers, as defined in Securities Act Rule 144A;

(D) Investment companies, as defined in Section 3 of the Investment Company Act;

(E) An entity composed exclusively of qualified institutional buyers, as defined in Securities Act Rule 144A;

(F) Banks, as defined in Section 3(a)(2) of the Securities Act;

(G) Employees and affiliates, as defined in [Rule 5121](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=9456), of the issuer;

(H) Knowledgeable employees as defined in Investment Company Act Rule 3c-5;

(I) Eligible contract participants, as defined in Section 3(a)(65) of the Exchange Act; and

(J) Accredited investors described in Securities Act Rule 501(a)(1), (2), (3) or (7).

(2) Offerings of exempted securities, as defined in Section 3(a)(12) of the Exchange Act;

(3) Offerings made pursuant to Securities Act Rule 144A or SEC Regulation S;

(4) Offerings of exempt securities with short term maturities under Section 3(a)(3) of the Securities Act and debt securities sold by members pursuant to Section 4(2) of the Securities Act so long as the maturity does not exceed 397 days and the securities are issued in minimum denominations of $150,000 (or the equivalent thereof in another currency);

(5) Offerings of subordinated loans under SEA Rule 15c3-1, Appendix D (see NASD Notice to Members [02-32](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=2645) (June 2002));

(6) Offerings of “variable contracts,” as defined in [Rule 2320](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=8494)(b)(2);

(7) Offerings of modified guaranteed annuity contracts and modified guaranteed life insurance policies, as referenced in [Rule 5110](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=6831)(b)(8)(E);

(8) Offerings of non-convertible debt or preferred securities that meet the transaction eligibility criteria for registering primary offerings of non-convertible securities on Forms S-3 and F-3;

(9) Offerings of securities issued in conversions, stock splits and restructuring transactions that are executed by an already existing investor without the need for additional consideration or investments on the part of the investor;

(10) Offerings of securities of a commodity pool operated by a commodity pool operator, as defined under Section 1a(11) of the Commodity Exchange Act;

(11) Business combination transactions as defined in Securities Act Rule 165(f);

(12) Offerings of registered investment companies;

(13) Standardized options, as defined in Securities Act Rule 238; and

(14) Offerings filed with FINRA under Rules [2310](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=8469), [5110](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=6831), [5121](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=9456) and [5122](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=6837), or exempt from filing thereunder in accordance with [Rule 5110](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=6831)(b)(7).

Pursuant to the [Rule 9600](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=4011) Series, FINRA may exempt a member or associated person from the provisions of this Rule for good cause shown.

## 14.9 SEC Rule 15c2-4: Escrow Account Rule

Pursuant to SEC Rule 15c2-4, the following procedures for the protection of customer funds including the establishment of an escrow account where required:

* Establish an escrow account and execute a standard escrow agreement with a bank that is not affiliated with the Company or Issuer. The escrow account may not be controlled by the issuer.
* Maintain copies of bank statements for the escrow account and review the statements when received, to ensure funds are not withdrawn prior to the date any contingency is met, if applicable.
* Ensure customer funds are promptly deposited to the escrow account.
* Maintain records of all potential purchasers including the quantity to be purchased, when funds are received, and when funds are forwarded to the issuer or escrow account.
* Ensure checks are forwarded to the issuer (where an escrow account is not used) or to an escrow account by noon of the business day following receipt.
* Ensure authorization of release of funds to the issuer from an escrow account after the contingency is met and after a review of purchasers has been conducted.
* If the issuer extends the offering period, require investors to reaffirm their investments.
* If the issuer reduces the offering minimum, return funds to investors, if applicable.

Furthermore, in the case of a private placement or a direct participation program where the terms of the offering specify certain contingencies which must be met prior to disbursement or release of funds to the Sponsor, all customer funds received in connection with such offerings will be placed on deposit in an escrow account in accordance with SEC (Securities Exchange Act of 1934, Part 240) Rule 15c2-4, until such time as the contingencies of the offerings are met or the offering is terminated. In the case of an offering terminating prior to meeting the contingencies of the offering, all investor monies will be returned to the investor in order to break escrow. Further, any investor checks received in connection with such an offering shall be made out to the escrow account. Any checks received from a customer, in connection with a contingent direct participation program, which are made out to a party other than the escrow account shall be immediately returned to the customer. Morris Monroe or his designee shall be responsible for the Company’s compliance with SEC Rules 15c2-4 and 10b-9.

## 14.10 State Blue Sky -Notice filings and Fee Payments

Morris Monroe or his designee shall ensure that if a notice filing or fee payment is required in a state where the issue has been sold that such is done. This shall be documented by maintaining a file copy of any such notices that the Company files, or a copy of a letter from the issuer or its counsel that such has been filed or else that the issue is exempt from filing, or a memo to the files by Morris Monroe, his designee, that a filing or fee payment is not required.

## 14.11 Compensation

Morris Monroe will review the prospectus to determine that the underwriting compensation does not exceed 10% of the gross proceeds of the offering including trail commissions. An additional .5% may be reimbursed to members or independent due diligence firms for bona fide due diligence expenses, which can be documented. An additional 4.5% is permitted for issuer organization and offering expenses (O&O expenses). In sum total issuer organization offering expenses are limited to 15% of the offering proceeds. Morris Monroe may rely on the results of an inquiry conducted by another member if the above criterion is met. He will evidence his review of the compensation and other terms by initialing the file copy of the offering memorandum or circular.

Morris Monroe will remind Associated Persons on the prohibitions concerning the receipt of gifts with more than a de minimus value, the prohibition of payments or reimbursements preconditioned on the achievement of a sales target, and the prohibition of payments and reimbursements for travel and meetings that are not bona fide due diligence meetings or training and education meetings. (Refer to Non-Cash Compensation in Rule 2810(b)(4)(E). This will be enforced by reviewing any Gifts and Gratuities Log and Travel Receipts for the offering.

## 14.12 Investor BI and Concentration Reviews

Morris Monroe will review the confidential offering memorandum for each private placement offered by the Company, in accordance with FINRA Rule 2810 (b)(2), to ensure that standards of BI have been established and are fully disclosed in the private placement memorandum. In addition to the standards set forth in the private placement memorandum, Morris Monroe, or applicable supervisor shall use reasonable efforts to ensure that all customers of the Company meet the following standards:

1. That the customer is in a financial position appropriate to enable it to realize, to a significant extent, the benefits described in the private placement memorandum, including the tax benefits in instances where they are a significant aspect of the program; and
2. The customer has a fair market net worth sufficient to sustain the risks inherent in the program, including loss of investment and lack of liquidity.

Supervisor will evidence their review of the above by signing the new account form and indicating their acceptance of the account.

With respect to the Company’s private placement activities, the Company’s customer base will generally be comprised of accredited investors whose investment portfolios are both large and diverse, thus concentration of positions typically will not be an issue for review.

Notwithstanding this fact, Morris Monroe, on behalf of the Company, will review account information provided on the new account form and/or subscription agreement of customers of the Company to identify any concentrated positions in customer accounts.

## 14.13 No General Solicitation

Neither the Company nor any Associated Person may solicit the offer or sale of the securities of any issuer in a private placement offering by means of an advertisement or other form of general solicitation other than those permitted under Rule 506(c) and 144A. No such solicitation of the sale of securities may be made in any seminar or meeting whose attendees has been invited by any form of general solicitation. In addition, the Company’s Associated Persons are not permitted to participate in any seminar or meeting whose attendees have been invited by any form of general solicitation at any period of time during which the Company is actively engaged in any private placement offering unless the written consent of Morris Monroe or the Compliance Department is obtained.

## 14.14 Offering Terms and Conditions in accordance with SEC Rule 10b-9

In accordance with SEC Rule 10b-9(2), with respect to Min/Max offerings, the Company shall not participate in any transaction where the security being offered or sold, is being offered or sold on any other basis whereby all or part of the consideration paid for any such security will be refunded to the purchaser if all or some of the securities are not sold, unless the security is part of an offering or distribution being made on the condition that all or a specified part of the consideration paid for such security will be promptly refunded to the purchaser unless (i) a specified number of units of the security are sold at a specified price within a specified time, and (ii) the total amount due to the seller is received by him by a specified date. In keeping with this provision, to the extent the minimum is not reached by the termination date of the offering, the offering shall be terminated in accordance with the provisions of SEC Rule 10b-9, unless the offering is otherwise extended, prior to the termination date, by the express written consent of all purchasers as of the date of termination. Further, any requests for permission to extend which shall be given to purchasers pursuant to this section, shall also include the ability for the customer to terminate his/her purchase of the offering and to receive a refund of his/her investment.

To the extent an offering is extended, the offering documents may be stickered accordingly to reflect the new termination date of the offering. However, no other changes may be made to the offering or the terms and conditions of the offering. In the event the terms of the offering are changed or otherwise amended, each purchaser shall receive a refund of their initial purchase and the opportunity to invest in the “new offering” created by the change in terms and conditions. Morris Monroe or his designee shall be responsible for the Company's compliance with SEC Rule 10b-9.

## 14.15 Records of Underwriting

Further, Morris Monroe or his designee shall be responsible for maintaining a listing of all offerings in which the Company has participated, including the name of the underwriting, the allotment, price per share if applicable, and the role in which the Company acted (i.e. Placing Agent or Managing Placing Agent) and any such Selling Agreement related to same.

Private placements, which are often in the form of stock offerings or limited partnerships, are generally exempt from registration. They are made under strictly defined conditions which involve factors such as the nature of the issuer, the value of the securities offered, the number, nature and residences of offerees and purchasers, the information disclosed to purchasers, filings made with the SEC and certain blue-sky authorities, and the manner in which offerees are solicited. Private placements frequently involve products that are more complex than other securities. The relative investor risks and tax consequences of private placements may have a wide range of implications. Accordingly, private placements shall not be offered by any registered representative of the Company without the approval of the appropriate Designated Principal. A general explanation of the laws applicable to the offering and sale of private placements follows.

## 14.16 Regulation D Offerings

Regulation D is an SEC regulation under the 1933 Act which refers to limited offering exemption rules that exempt certain offerings from the registration requirements of the 1933 Act. Regulation D, which contains a series of six rules (Rules 501- 506), applies to certain private placements of securities and replaces exemptions formerly provided under Rules 146, 240 and 242 of the 1933 Act. (Note that certain state securities regulations (commonly referred to as the "Uniform Limited Offering Exemptions") usually parallel Regulation D but often impose more stringent requirements on issuers).

|  |  |  |
| --- | --- | --- |
| **Features** | **Rule 504** | **Rule 506** |
| Who may invest | Anyone suitable for the investment | Qualified investors |
| Number of investors | Unlimited | 35 non-accredited, unlimited accredited investors |
| Size of offering sold in any consecutive 12 months. Up to: | $5,000,000 | Unlimited |
| Restricted securities? | No | Yes |
| Public solicitation/advertising allowed? | Yes | Yes |
| Disclosure document required? | No | Yes\* |
| Opportunity to ask questions of issuer? | No | Yes |

\*Under the rule, disclosure documents are not required to be given to accredited investors though a note to Rule 502(b) states that an issuer should consider providing such information to accredited investors in view of anti-fraud statutes.

The reference to "unlimited accredited investors" in the section "Number of investors" above does not imply that a private placement will, in fact, have an unlimited number of accredited investors. The issuer and Company will consider limitations on accredited investors, as appropriate, to preserve the exemption as a private placement and avoid the appearance of a broad solicitation of the issue.

**Disqualification of Felons and Other "Bad Actors"** - Rules 504 and 506 are frequently used exemptions from registration under Regulation D. The exemptions are NOT available if the issuer or any person covered by the disqualification rule had a "disqualifying event." Disqualifying events include certain criminal convictions; SEC and CFTC actions; and other events. There is an exception from disqualification if the issuer can show it did not know, and in the exercise of reasonable care, could not have known that a covered person with a disqualifying event participated in the offering.

### 14.16.1 Rule 501

Rule 501 of Regulation D sets forth definitions and terms applicable to the regulation. Perhaps the most important definition is that of the term "accredited investor." This definition provides that certain categories of accredited investors are excluded for purposes of determining whether the number of purchasers of a privately placed security exceeds the applicable limit. Among these categories are:

1. Financial institutions such as banks, insurance companies and investment companies as well as employee benefit plans;

2. Any private business development company;

3. Any college or university endowment fund, as well as other non-profit organizations with assets of $5,000,000 or more;

4. Directors, executive officers and general partners of the issuer;

1. Individuals with a net worth in excess of $1,000,000 (including joint net worth with spouse) and effective July 21, 2010, excluding the value of their primary residence;

1. Individuals with income in excess of $200,000 in each of the last two years, with a reasonable expectation of having income in excess of $200,000 in the year of the purchase (or together with spouse in excess of $300,000);
2. Natural persons based on certain professional certifications, designations or other credentials issued by an accredited educational institution, which the SEC may designate from time to time by order (and other standards set by federal or state laws and regulations).  In conjunction with the adoption of the amendments, the SEC has specifically designated that holders in good standing of the Series 7, Series 65, and Series 82 licenses are qualifying natural persons;
3. Natural persons who are “knowledgeable employees” of a Private Fund;
4. Limited liability companies with $5 million in assets, and SEC and state-registered investment advisers, exempt reporting advisers, and rural business investment companies (RBICs);
5. Any entity, including Indian tribes, governmental bodies, funds, and entities organized under the laws of foreign countries, that own “investments,” as defined in Rule 2a51-1(b) under the Investment Company Act, in excess of $5 million and that was not formed for the specific purpose of investing in the securities offered;
6. “Family offices” with at least $5 million in assets under management, and their “family clients,” as each term is defined under the Investment Advisers Act; and
7. “Spousal equivalents” may pool their finances for the purpose of qualifying as accredited investors.

**Determining Accredited Investor Status**

Company shall make a determination as to the "accredited investor" status of each investor in a private placement offering. In making such determination as to the accredited investor status of the purchasers in private placement offerings, the Company may rely on a combination of financial statements or other financial information provided by the investors or certifications or representations in the subscription agreements of the investors certifying and/or representing as to their accredited investor status.

### 14.16.2 Rule 502

Rule 502 describes general conditions applicable to the regulation. This Rule provides a "safe harbor" from the integration of sales of securities by the issuer made six months prior to or six months after a Regulation D offering, describes when and what type of disclosure must be furnished and provides guidance on applicable limitations on resale.

### 14.16.3 Rule 503

Rule 503 provides a Uniform Notice of Sale Form (Form D) to be filed by the issuer for exemption qualification due fifteen (15) days after the first sale, then due every six (6) months after the first sale and thirty (30) days after the last sale.

### 14.16.4 Rule 504

Rule 504 concerns theSmall Corporate Offering Registration (SCOR), pursuant to which an issuer can raise up to an aggregate amount of $5,000,000 in any consecutive twelve-month period. While there is no cap on the number of investors which may participate in the offering and the payment of commissions is permitted, a minimum offering price of $5 per share is imposed. Rule 504 essentially shifts the administration of such smaller offerings to the states, with the significant proviso that these offerings remain subject to federal anti-fraud and civil liability provisions of the 1933 Act.

### 14.16.5 Rule 505

Rule 505 addresses offerings having an aggregate offering price of no greater than $5,000,000 in any consecutive twelve-month period, imposes a limitation of thirty-five (35) non-accredited investors, but no limitation on accredited investors, and permits the payment of commissions, but precludes the general solicitation of sales.

### 14.16.6 Rule 506

Finally, Rule 506 provides an exemption from registration similar to Rule 505, except there is no aggregate offering price limitation and the issuer must reasonably believe, prior to making the sale, that the non-accredited persons, either alone or in conjunction with purchaser representatives, understand the merits and risks of their investment.

Advertising and general solicitation of private placements sold under Rule 506 are permitted subject to the following restrictions:

**Under Rule 506(b)**

Company may raise an unlimited amount of money and may sell to an unlimited number of accredited investors. 506(b) offerings are subject to the following:

* no general solicitation or advertising to market the securities
* may not be sold to more than 35 non-accredited investors subject to the following:
  + must provide disclosure documents; if information is provided to accredited investors, the same must be provided to non-accredited investors
  + must provide financial statement information
  + should be available to answer questions from prospective purchasers

Purchasers receive restricted securities. Notice to the SEC on Form D is required within 15 days after the first sale of securities in the offering. Some states may require notice filings and fees.

506(b) offerings are subject to "bad actor" disqualification provisions (see *Disqualification of Felons and Other "Bad Actors"* in this chapter).

**Under rule 506(c)**

Under Rule 506(c) issuers may broadly solicit and generally advertise an offering subject to the following restrictions:

* All purchasers must be accredited investors under Rule 501.
* The issuer is obligated to take reasonable steps to verify that purchasers are accredited investors under Rule 501 of Regulation D. Depending on Company's role, Company may be responsible for verification.
* Certain other conditions in Regulation D are satisfied.

Purchasers receive restricted securities. The issuer must file notice to the SEC on Form D within 15 days after the first sale of the securities in the offering. Some states may require notice filings and fees.

The SEC has provided a non-exclusive list of methods that issuers (or someone acting on behalf of the issuer) may use to satisfy the verification requirement for individual investors, including:

* Reviewing copies of any IRS form that reports the income of the purchaser and obtaining a written representation that the purchaser will likely continue to earn the necessary income in the current year.
* Receiving a written confirmation from a registered broker-dealer, SEC-registered investment adviser, licensed attorney, or certified public accountant that such entity or person has taken reasonable steps to verify the purchaser's accredited status.

The verification rule does NOT apply if there is no advertising or general solicitation.

**For Form D**:

There are two new classifications for the 506 Filing Type:

* 506b: To qualify for an exemption under this section, offers and sales must satisfy all the terms and conditions of SEC Act of 1933, Sections §§ 230.501 and 230.502 and *Specific conditions* —(i) *Limitation on number of purchasers.* There are no more than or the issuer reasonably believes that there are no more than 35 purchasers of securities from the issuer in any offering under this section; (ii) *Nature of purchasers.* Each purchaser who is not an accredited investor either alone or with his purchaser representative(s) has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment, or the issuer reasonably believes immediately prior to making any sale that such purchaser comes within this description.
* 506c: *Conditions to be met in offerings not subject to limitation on manner of offering*

(1) *General conditions.* To qualify for exemption under this section, sales must satisfy all the terms and conditions of §§ 230.501 and 230.502(a) and (d).

(2) *Specific conditions* —(i) *Nature of purchasers.* All purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors; (ii) *Verification of accredited investor status.* The issuer shall take reasonable steps to verify that purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors. The issuer shall be deemed to take reasonable steps to verify if the issuer uses, at its option, one of the following non-exclusive and non-mandatory methods of verifying that a natural person who purchases securities in such offering is an accredited investor; provided, however, that the issuer does not have knowledge that such person is not an accredited investor.

* Income basis: reviewing IRS forms that reports the purchaser's income for the two most recent years (including, but not limited to, Form W-2, Form 1099, Schedule K-1 to Form 1065, and Form 1040) and obtaining a written representation from the purchaser that he or she has a reasonable expectation of reaching the income level necessary to qualify as an accredited investor during the current year;
* Net Worth basis: reviewing one or more of the following types of documentation dated within the prior three months and obtaining a written representation from the purchaser that all liabilities necessary to make a determination of net worth have been disclosed:

(*1*) With respect to assets: Bank statements, brokerage statements and other statements of securities holdings, certificates of deposit, tax assessments, and appraisal reports issued by independent third parties; and

(*2*) With respect to liabilities: A consumer report from at least one of the nationwide consumer reporting agencies; or

* Written confirmation from one of the following persons or entities that such person or entity has taken reasonable steps to verify that the purchaser is an accredited investor within the prior three months and has determined that such purchaser is an accredited investor:

(*1*) A registered broker-dealer;

(*2*) An investment adviser registered with the Securities and Exchange Commission;

(*3*) A licensed attorney who is in good standing under the laws of the jurisdictions in which he or she is admitted to practice law; or

(*4*) A certified public accountant who is duly registered and in good standing under the laws of the place of his or her residence or principal office.

* In regard to any person who purchased securities in an issuer's Rule 506(b) offering as an accredited investor prior to September 23, 2013 and continues to hold such securities, for the same issuer's Rule 506(c) offering, obtaining a certification by such person at the time of sale that he or she qualifies as an accredited investor.

*Further accredited verification methods may be found at* [*http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=d0c0f2263d29d0708f9f087d976817f5&rgn=div8&view=text&node=17:2.0.1.1.12.0.46.181&idno=17*](http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=d0c0f2263d29d0708f9f087d976817f5&rgn=div8&view=text&node=17:2.0.1.1.12.0.46.181&idno=17)*.*

## 14.17 Dollar Amount of the Offering and Integration Issues

The designated supervisor is responsible for ensuring the issue is not oversold relative to the dollar amount or terms disclosed in the offering document compared to the limitations provided in the rules. The supervisor should consider any "integration" of similar offerings by the same issuer for substantially identical purposes for determining whether the issuer meets the dollar limitation under the exemption within a 12-month period of time. The supervisor's review for integration may include one of the following or another procedure determined adequate by the supervisor:

* Reviewing the issuer's financial statements for the past 12 months and/or contact directly with the issuer
* Obtaining a representation letter from the issuer that states that no other offerings were distributed during the 6-month period prior to the current private placement offering or will be distributed in a succeeding 6-month period that would cause the exemption to be lost

## 14.18 Filing Requirements

The Company will ensure that a Form D is completed and filed either electronically or paper file with the appropriate regulators no later than 15 days after the first sale of securities that is made in reliance on Rule 504, 505, or 506 in each state or other jurisdiction, unless the applicable exemption under a state or other jurisdiction requires the Form D to be filed at another time or times. A copy of such Form D filing will be maintained with the transaction documents. The Form D must be manually signed by an authorized signatory of the issuer or electronically pursuant to Edgar filings. The Form D should normally be sent to any state regulator via some form of return receipt mail, such as by Federal Express or UPS, and a copy of the document evidencing delivery of the Form D filing should be placed in the Form D file for such private placement transaction.

In addition to federal filing requirements, the issuer generally is required to file the Form D and other documents with the appropriate state regulators within 15 days after the first sale in each state. Prior to consummating a sale of securities, the Company will review the filing requirements of the state in which the issuer has its principal place of business as well as the state or states in which the purchasers reside or have their principal place of business. The Company must ensure that all appropriate filings are made with such state regulatory bodies on a timely basis. Copies of such filings will be maintained with the transaction documents.

## 14.19 Blue Sky Requirements

State securities laws ("blue sky" laws) that apply to private placements vary from state to state. Some states have differing definitions for accredited investors; some states require registration of a securities issue that is otherwise exempt under Federal securities laws.

Company and its sales personnel are required to comply with any blue-sky requirements that apply to a specific private placement issue. Requirements may differ depending on where the issue originates and where it is sold.

## 14.20 Procedure Guidelines for Processing Private Offerings

In an effort to process private offerings efficiently and compliant with Company and regulatory rules and procedures, the following checklist has been developed:

1. Create Offering File Notebook - Must contain
   1. Selling Agreement: Both Issuer and Company must execute prior to or simultaneously with offering date;
   2. If applicable, Escrow Agreement, Escrow Log (when completed), Escrow Account Statements
   3. Blotter and/or Escrow Log of investor funds.
   4. Memorandum Transmittal Log;
   5. Miscellaneous: Regulatory Filings, etc. (Laura handles)
   6. Investor Section: maintain alphabetically copies of investor documents.
2. Memorandum Transmittal Log: in excel spreadsheet - record memorandum number given to customer, date, customer name, address, and how delivered.
3. Make sure paperwork is complete: New Account Form, Subscription Document, run OFAC search, copy of Driver’s License, copy of check.
4. Subscription Documents reviewed by BackOffice personnel for completion. May list on the front page: Name of Investor, RR, Amount, and Accredited and Non-Accredited for internal purposes only.
5. Deposit any Check and original signature page at applicable Escrow bank (for Amegy: MUST BE DELIVERED BY INTEROFFICE MAIL TO THE 1960 BRANCH, ATTN: TRUST DEPT/RAY RHOADES). OR, for non-escrow offerings, forward check to Issuer (WFSI) by noon of the day following receipt.

## 14.21 Limitations on Resale

Securities sold pursuant to Reg D cannot be resold without registration or an exemption from registration. The Company will ensure that it or the issuer will provide written notice to each purchaser prior to the consummation of the transaction that the securities have not been registered under the Securities Act and, therefore, cannot be resold unless they are registered or unless an exemption from registration is available

## 14.22 Approval of Marketing Materials

All retail communication, including power point presentations and other marketing materials to be used in connection with any private placement offering in which the Company participates, shall be fair, accurate and balanced; shall be approved prior to use by the Chief Compliance Officer; and shall be maintained for a minimum of three years. Such approval of sales literature, including power point presentations and other marketing materials, shall be evidenced by the Chief Compliance Officer or his or her designee initialing and dating a copy of all approved marketing materials.

### 14.22.1 Retail Communications

FINRA Regulatory Notice 20-21 should be referenced for more detail and guidance.

* Under Rule 2210(d) all communications must be fair, balanced, and not misleading;
* Any promotion of potential awards must be balanced by disclosure of the associated risks;
* Communications must be accurate and provide a sound basis to evaluate the facts with respect to the products or services discussed; and
* Retail communications must be approved by a registered principal.

This also applies to communications prepared by third parties and used by Company. If a retail communication is included in the same electronic file with an issuer-prepared private placement memorandum and distributed by Company, it is considered a Firm communication in its entirety subject to FINRA Rule 2210. Retail communications must balance any discussions of benefits with a discussion of related risks and must be in the same retail communication (*i.e.,* cannot be in a separate document or different section of the website).

Retail communications may not contain any prediction or projection of performance, subject to certain exceptions, as well as any exaggerated or unwarranted claim, opinion, or forecast. Reasonable forecasts of issuer operating metrics, along with a sound basis for evaluating the facts and related risks, would be permitted. FINRA Regulatory Notice 20-21 provides more detailed guidance when including forecasts.

Regulatory Notice 13-18 provides guidance for public and non-public REITs including principles relating to distribution rates which refers to issues where a portion of distributions are funded through return of principal or loan proceeds. Refer to the Notice for details of necessary disclosures.

Internal Rate of Return (IRR) is a measure of performance commonly used in connection with marketing private placements of real estate, private equity and venture capital. A drawback of IRR calculations is an inherent assumption that investors will be able to reinvest distributions at the IRR rate, which is unlikely to occur. In addition, calculations may include holdings that have not yet been sold (or liquidated or matured) resulting in subjective factors and assumptions. IRR may not be used in retail communications regarding privately placed new investment programs with no operations or that operate as a blind pool. IRR may be used for completed investment programs (holdings matured or all sold).

## 14.23 Prohibition against Payment of Referral Fees to Non-Members

The Company shall not pay commissions, referral fees or other similar transaction-based compensation to any entities involved in the offer, sale or distribution of private placement securities, which are not members of FINRA.

## 14.24 Disclosure of Control SEC Rule 15c1-5

If the Company is involved in a distribution where there is an affiliation with the issuer, it will provide written disclosure of the affiliation prior to the completion of the transaction or provided in the offering memorandum.  A copy of the disclosure (if not included in the offering memorandum) provided to the customer will be maintained in the customer file.

## 14.25 Disclosure of Interest in Distribution SEC Rule 15c1-6

If the Company is involved in a distribution and it receives a fee in any capacity, it will provide written disclosure to a customer, unless it is provided in the offering memorandum, at or before the completion of a transaction. A copy of the disclosure provided to the customer will be maintained in the customer file (if not included in the offering memorandum).

## 14.26 Due Diligence Activities

In the event Morris Monroe or his designee gives his consent to the offer or sale of a new product or private placement, the following rules shall apply: Morris Monroe or his designee must conduct or cause to be conducted, prior to any offer or sale of a new product or private placement, a due diligence investigation of the issuer and securities to be offered. Depending on the nature of the issuer, the Company may retain the services of qualified experts (e.g. engineers, architects, lawyers and accountants) to assist it in conducting the due diligence inquiry.

Due diligence may include the following reviews, as appropriate for the particular potential offering:

* Financial reports
* Written company assurances as to the accuracy of records and financial statements
* Determination of the issuer's creditworthiness
* Evaluation of issuer’s business model
* Information from financial and other publishers, news articles, and industry publications
* Issuer’s internal documents such as operating plans, product literature, corporate records, financial statements, contracts and lists of distributors and customers
* Physical inspection of the company’s facilities
* Any past or pending litigation of the issuer
* Determination of the plausibility of expected rates of return as compared to industry benchmarks, particularly considering complex fee structures associated with many of these types of investments
* Updating due diligence as needed until effectiveness of the offering

The use of counsel or experts to perform an investigation on the Company's behalf must be done by firms and individuals that the Company is satisfied are qualified and competent. When Company is a member of a syndicate or selling group, it may rely upon the reasonable investigation by the syndicate manager if the Company believes the syndicate manager has the expertise and absence of conflicts to conduct the investigation. Reliance may be substantiated by meeting with the manager; obtaining a description of the manager's reasonable investigation efforts; and inquiry regarding the independence and thoroughness of the investigation.

**BD affiliation with the Issuer**: If there is an affiliation with the issuer, a BD must not compromise its independence in performing a thorough and independent investigation and must resolve any conflict of interests impairing that responsibility.

All related due diligence documents will be maintained as part of the Offering File.

No offering material for a private placement (e.g. private placement memorandums, offeree questionnaires, sales literature, correspondence, etc.) may be used in connection with a private placement of securities unless such material has been reviewed and approved by Morris Monroe or Compliance. In the event such approval has been given and offering material is distributed in connection with a private placement, any and all subscription documents received from prospective investors must be reviewed by Morris Monroe or his designee to determine whether such subscribers meet the requirements of the offering with respect to sophistication, wealth or "accredited investor" status. The Company shall not participate in a closing of a private placement offering nor accept any selling compensation on account of such offering until Morris Monroe or his designee has received all necessary conditions of the exemption from registration of the offering have been satisfied or advice from the Company's legal counsel of same. No registered representative of the Company will be entitled to any compensation on account of sales in a private placement until Morris Monroe or his designee has received advice from the Company's legal counsel that the closing has taken place.

### 14.26.1 Communications and Conflicts of Interest

Retail communications for any other new product must be reviewed and approved by Morris Monroe prior to use with evidence of such approval indicated on said material and maintained in the Company’s records. Any disclosures or conflicts of interest will be reviewed by Morris Monroe and determined how to disseminate such information. Any new product approved for distribution shall be added to the WSC Approved Product List as evidence of approval. If it is determined that any training needs to be conducted prior to the distribution , then training will be conducted by Morris Monroe or his designee, with a log of such training maintained in the Company records.

## 14.27 Direct Participation Programs (DPP) and REITS *(eff 08/17/09)*

DPPs are usually organized as a limited partnership, a subchapter S corporation or a general partnership designed to let investors participate directly in the cash flow and tax benefits of the underlying investment. DPPs are generally passive investments that typically invest in real estate or energy-related ventures. Company will follow the same guidelines and requirements for DPPs as other private placements, including BI, disclosures, handling of checks, etc.

Company will not participate in any public DPPs. However, pursuant to Rule 2310, these guidelines will be followed if Company participates in any such offering or real estate investment trust:

* Establish standards of BI for participants of the program and such standards are fully disclosed in the prospectus consistent with the Rule.
* Disclose all material facts adequately and accurately in a prospectus or offering material and provide a basis for evaluating the program. At a minimum, the following items should be disclosed:

(i) Items of compensation;

(ii) Physical properties;

(iii) Tax aspects – if applicable, that the customer understands the ramifications of not having a high enough tax bracket or not enough passable income to receive benefits of a DPP’s partnership flow-through concept;

(iv) Financial stability and experience of the sponsor;

(v) The program's conflict and risk factors;

(vi) Appraisals and other pertinent reports; and

(vii) Liquidity and marketability of the program.

* Issuer organization and offering expenses (O&O) to be reimbursed from the offering proceeds are limited to 15% of the gross proceeds;
* Underwriting compensation is limited to 10% of the gross proceeds of the offering (and must be included in the 15% of the Issuer’s O&O expenses. Any allocation of compensation to dual employees of the issuer or Investment Program sponsor and an affiliated broker-dealer will be treated by taking an "all-in" or "all-out" approach to allocating the compensation. In general, payments to registered persons will be "all-in" and included as underwriting compensation, whereas payments to unregistered persons will be "all-out" and not included as underwriting compensation;
* Any due diligence expense to be reimbursed to Company will be included as part of the O&O expenses and may be treated in the calculation of underwriting compensation as a non-accountable expense provided that, when aggregated with all other non-accountable expenses, the amount does not exceed 3 percent of the offering proceeds.
* It shall be prohibited to charge a sales load or commission on securities purchased through the reinvestment of dividends.
* The offering must disclose whether prior programs offered by the program sponsor liquidated on or during the date or time period disclosed in the prospectuses for those programs.
* A training or education meeting may include a location at which a "significant or representative" asset is located.

Additional procedures may be adopted if Company participates in any public offerings.

### 14.27.1 Communications Regarding Unlisted Real Estate Programs

There are FINRA guidelines for communications concerning unlisted real estate investment programs (real estate programs) which include REITs or DPPs that invest in real estate assets or mortgages and that are not listed on a national securities exchange. Following is a summary of the guidance; refer to FINRA Regulatory Notice 13-18 for details.

* **Disclosure**: When describing real estate programs, communications must accurately and fairly explain how the products operate. Communications must be consistent with the program's current prospectus and must not imply an investment in the program is a direct investment in real estate or other assets. If the program has not yet qualified for REIT status under the U.S. tax code, communications must disclose that the program has not yet qualified and that it may never qualify for REIT status. Potential benefits must be balanced with disclosure of potential risks, which must be presented in a clear and prominent manner (not in a footnote and not in a separate document such as the prospectus even if the communication is accompanied or preceded by a prospectus).
* **Distribution Rates**: Distributions from real estate programs sometimes include return of capital. The composition of distributions may not be misrepresented or described as a yield comparable to a fixed income investment. FINRA's guidance states that communications should include clear and prominent disclosure (as applicable):
  + That distributions are not guaranteed and may be modified;
  + If the distribution consists of return of principal (including offering proceeds) or borrowings, include a breakdown of the components of the distribution rate that represent cash flows, return of principal, and borrowing;
  + The time period during which distributions have been funded from return of principal (including offering proceeds), borrowings or any sources other than cash flows from investment or operations;
  + That distributions that include return of principal will lessen the money available for the program to invest, which may lower overall returns; and
  + If distributions include borrowed funds, that because borrowed funds were used to pay distributions, the distribution rate may not be sustainable.  
    Communications may not include an annualized distribution rate until the program has paid distributions that are, on an annualized basis, at a minimum equal to that rate for at least two consecutive quarterly periods.
* **Stability/Volatility Claims**:
  + Communications may not assert or imply that the value of a real estate program is stable or that volatility is limited without providing a sound basis to evaluate this claim.
  + Communications may not state that the offering price at par value or at another relatively stable price evidences stability in the value of the underlying assets.
  + Representations that the offering price is stable, or volatility is limited must include disclosure that the value of underlying assets will fluctuate, may be worth less than what the program initially paid, and that the investor may not be able to sell the investment.
* **Redemption Features and Liquidity Events**:
  + Restrictions and limitations on redemption features (such as the fact that the real estate program's management may terminate or modify the ability to redeem) must be clearly and prominently explained.
  + Communications must disclose if the real estate program has not satisfied all investor redemption requests in the past.
  + Any discussion about potential liquidity events or the timing of such events should disclose if the date of the liquidity event is not guaranteed if it may be changed at the program's discretion.
* **Performance of Prior Related Real Estate Programs**: Discussions of prior or historical performance of related or affiliated entities should include information about such related entities with equal prominence, may not "cherry pick" those favorable to the current program, and should be clearly differentiated from information regarding the current program.
* **Use of Indices and Comparisons**: Communications about real estate programs sometimes include a real estate index's performance to demonstrate the sector's risk or return characteristics. The use of index performance may be misleading if its underlying components do not correspond with those of the program's portfolio. Communications that compare a real estate program against a real estate index must indicate that the performance of the index does not reflect a particular program and must describe the index's components and any relevant differences between the index and the program's investments.
* **Pictures of Specific Properties**: Where a communication includes pictures or images of properties that are not owned by the real estate program - such as similar properties owned by other programs the sponsor manages or properties that are collateral for mortgages owned by the program - the pictures must include prominent text explaining that the property is not owned by the program.
* **Capitalization Rates:** Communications may include the capitalization rate of an individual property within a real estate program if the rate is based on current information contained in the prospectus, and the communication explains (i) how the rate was calculated, (ii) that the rate applies to the individual property, and (iii) that it does not reflect a return or distribution from the program itself. In general it is misleading to include a blended capitalization rate representing multiple individual properties as the factors that go into such rates will differ between individual properties.

## 14.28 Underwritings

In relation to new underwritings, it is the Company's intent from time to time to participate in the distribution of new underwritings. At such time, no participation will be conducted unless the underwriting complies with state and federal rules and regulations. In accordance with the exemptive provisions of **SEC Rules 15c3-1** and **15c3-3** the Company will participate in new underwritings on a "Best Efforts" basis. It is also the Company's intent to spend the time and effort necessary, based on its abilities, to research and evaluate each and every security vehicle which it intends to merchandise.

Furthermore, it is the Company's intent to offer to the public only those securities in which the Company can ethically and morally have confidence. It is also the Company's intent to keep any and all Associated Persons highly informed with pertinent information related to each situation. This can be maintained through meetings, close supervision, and genuine interest on the part of each designated person. The purpose of the meetings will be to discuss thoroughly the nature of any security, underwriting or offering in which the Company participates. The discussions will include the type of investment, necessary investor BI, special risks, financial history, and other general information relative to keeping the merchandising of such vehicle on a high ethical basis.

All underwriting activities will be supervised by Morris Monroe. Further, Morris Monroe will be responsible for the structuring, packaging and marketing of private placements and public offerings sponsored by the Company.

In order to prevent possible violations of **SEC Rule 10b-9** and FINRA Rule **5130**, it shall be a policy of the Company that no registered or non-registered Associated Person or their immediate family shall be allowed to participate in new equity issues that are immediately traded in the secondary market, without the prior approval of Morris Monroe.

In accordance with [SEC Rule 15(c)(1)](http://www.law.uc.edu/CCL/34Act/sec15.html#c.1), the Company shall provide written disclosure to potential customers any existence of control with the Issuer as prescribed in the rule before entering into any contract with or for such customer for the purchase or sale of such security.

All employee accounts and family related accounts shall be reviewed by Morris Monroe at the time of the underwriting to ensure compliance with the free-riding and withholding provisions if applicable. A log of such review shall be maintained reflecting the accounts which have been reviewed, the date of the review, the signature of the principal conducting the review and any problems or irregularities cited during the review. Employee and Employee-related accounts will refrain from executing trades in securities in which the Company plans on participating in an underwriting for, within 3 days prior to the underwriting or selling group participation, without prior approval of Morris Monroe.

Further, the Company shall use its best efforts to inquire of an issuer as to whether any associated person of the issuer will be participating in the distribution of units or securities proposed to be offered by the Company. The Company shall take reasonable steps to require proof of compliance with **SEC Rule 3a4-1** by the issuer and its associated person(s). The Company shall further have its legal counsel review the transaction for compliance with **Rule 2420** of FINRA Rules.

The Company shall use its best efforts to perform a due diligence review of all prospective issuers prior to participating in the distribution of units or securities on behalf of such issuer, in an effort to determine that said issue is in compliance with **SEC Rules 10b-5** and **10b-6**. In addition, pursuant to FINRA **Rule 2310**, customer suitability shall be ascertained for any prospective purchasers.

In accordance with **SEC Rule 15c2-8**, the Company shall take reasonable steps to make available a copy of the preliminary prospectus relating to such securities to each of its associated persons who is expected, prior to the effective date, to solicit customers’ orders for such securities before the making of any such solicitation by the associated person and to make available to each associated person a copy of any amended preliminary prospectus promptly after the filing thereof. The Company shall also take reasonable steps to make available a copy of the final prospectus relating to such securities to each of its associated persons who is expected, after to the effective date, to solicit customers’ orders for such securities before the making of any such solicitation by the associated person, unless a preliminary prospectus which is substantially the same as the final prospectus except for matters relating to the price of the stocks, has been made available to the Company's associated persons.

The Company shall further cause to be forwarded or forward a copy of the preliminary prospectus to any person who is expected to receive a confirmation of sale at least 48 hours prior to the mailing of such confirmation, unless the transaction is otherwise exempt from such delivery requirements in accordance with Section 174 of the Securities Act of 1933 ("33 Act"). Further, the Company shall take reasonable steps to furnish to any person who makes written request for a preliminary prospectus between the filing date and a reasonable time prior to the effective date of the registration statement to which the prospectus relates. The Company shall also take reasonable steps to furnish to any person who makes written request for a final prospectus between the effective date of the offering and the termination date of such distribution or the expiration of the applicable 40- or 90-day period under section 4(3) of the '33 Act. Accordingly, it shall be the responsibility of Morris Monroe to review the requirements of each offering as they relate to **SEC Rules 15c2-8** and **Section 174 of the '33 Act** and to oversee the distribution of prospectuses required thereunder.

During the course of the underwriting, Morris Monroe shall review the daily trade blotters for any short sale transactions in securities for which a public offering of such securities is being made and which might be covered with securities subject to a registration statement under the '33 Act. Such transactions shall be reviewed for compliance with **SEC Rule 10b-21**. All customer records will be kept at the corporate office of the Company.

## 14.29 Rule 144 Sales

With respect to securities transactions subject to the restrictions of **SEC Rule 144**, it shall be a policy of the Company that, where the Company is not a market maker in the subject security, all such transactions shall be conducted on an agency basis only. All Rule 144 transactions shall be reviewed and approved by Morris Monroe or his designee.

## 14.30 Rule 10b-10

With respect to all riskless principal transactions, all confirmations issued for said transactions shall clearly reflect the markup or markdown taken by the Company with respect to said transaction. To ensure compliance with **Rule 10b-10**, all confirmations issued on riskless principal transactions shall be reviewed and approved by Morris Monroe, his designee, or the designated principal.

## 14.31 FINRA Rule 5130 -Restrictions on the Purchase and Sale of Initial Equity Public Offerings

In accordance withFINRA Rule 5130, to protect the integrity of an initial public offering (IPO) process, the Company, if applicable, will ensure that: (1) it makes bona fide public offerings of securities at the offering price; (2) not withhold securities in a public offering for its own benefit or use such securities to reward persons who are in a position to direct future business to Company; and (3) industry insiders, including Company and Associated Persons, do not take advantage of any insider position to purchase new issues for their own benefit at the expense of public customers. With respect to the sale of all new issues to institutional accounts, the Company shall distribute a Questionnaire requesting information on beneficial ownership and or officers of the institution prior to effecting the transaction for first time purchasers and or new customers of the Company. All such Questionnaires will be reviewed and approved by Morris Monroe. A copy of said Questionnaires shall be maintained in the customer file with copies in the respective underwriting files.

## 14.32 Regulation M

The Company does not participate in Regulation M offerings (secondary issue offerings).

## 14.33 Non-Cash Compensation

Regulatory rules restrict compensation relating to the sale and distribution of debt, equity, direct participation program (DPP), REIT securities, and municipal securities. Associated Persons may not accept (directly or indirectly) cash or non-cash compensation from outside firms or person. The only exception includes compensation arrangements specifically approved by the Company.

***Definitions***

The terms “compensation,” “non-cash compensation” and “offeror” as used in this Section shall have the following meanings:

(A) “Compensation” shall mean cash compensation and non-cash compensation.

(B) “Non-cash compensation” shall mean any form of compensation received in connection with the sale and distribution of securities that is not cash compensation, including but not limited to merchandise, gifts and prizes, travel expenses, meals, and lodging.

(C) “Offeror” shall mean an issuer, an adviser to an issuer, an underwriter, and any affiliated person of such entities.

### 14.33.1 Restrictions on Non-Cash Compensation

In connection with the sale and distribution of a public offering of securities, no member or person associated with a member shall directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as provided in this provision. Non-cash compensation arrangements are limited to the following:

(A) Gifts that do not exceed an annual amount per person fixed periodically by the Board of Governors (currently $100) and are not preconditioned on achievement of a sales target.

(B) An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target.

(C) Payment or reimbursement by offerors in connection with meetings held by an offeror or by a member for the purpose of training or education of associated persons of a member, provided that: (i) associated persons obtain the member’s prior approval to attend the meeting and attendance by a member’s associated persons is not conditioned by the member on the achievement of a sales target or any other incentives pursuant to a non-cash compensation arrangement permitted by subparagraph (d)(2)(D) of **Rules 2710** and **2810**; (ii) the location is appropriate to the purpose of the meeting, which shall mean an office of the issuer or affiliate thereof, the office of the member, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings; (iii) the payment or reimbursement is not applied to the expenses of guests of the associated person; and (iv) the payment or reimbursement by the issuer or affiliate of the issuer is not conditioned by the issuer or an affiliate of the issuer on the achievement of a sales target or any other non-cash compensation arrangement permitted by subparagraph (d)(2)(D) of Rule **2710** and **2810**.

(D) Non-cash compensation arrangements between a member and its associated persons or a company that controls a member company and the member’s associated persons, provided that no unaffiliated non-member company or other unaffiliated member directly or indirectly participates in the member’s or non-member’s organization of a permissible non-cash compensation arrangement; and

(E) Contributions by a non-member company or other member to a non-cash compensation arrangement between a member and its associated persons, provided that the arrangement meets the criteria in subparagraph (d)(2)(D) of Rule **2710** and **2810**.

Morris Monroe shall have the responsibility of supervising and approving such activities. The Company shall maintain records of all non-cash compensation received by the Company or its associated persons in arrangements permitted by subparagraphs (d)(2)(C)-(E) of **Rules 2710** and **2810**. The records shall include: the names of the offerors, non-members or other members making the non-cash compensation contributions; the names of the associated persons participating in the arrangements; the nature and value of non-cash compensation received; the location of training and education meetings; and any other information that proves compliance by the Company and its associated persons with subparagraph (d)(2)(C)-(E) of **Rules 2710** and 2810.

Further, Morris Monroe shall be responsible for maintaining a listing of all underwritings in which the Company has participated, including the name of the underwriting, the allotment, retention, price per share, and the roll in which the Company acted (i.e. Selling Group Member or Underwriter).

## 14.34 Investment Banking

Any investment banking and corporate finance transactions conducted by Associated Persons and the Company and all correspondence dealing with said solicitation of such transactions with customers will be reviewed and approved by Morris Monroe or his designee in writing. Further, all investment banking and corporate finance activity and transactions shall be reviewed by Morris Monroe or his designee for compliance with FINRA Rules and Company policies designed to prevent unauthorized dissemination of confidential information in accordance with the Company's Chinese Wall Procedures to prevent Insider Trading violations. All related records will be maintained in accordance with respective regulations.

## 14.35 Complex Products

FINRA guidance has indicated that complex products warrant particular care in how they are scrutinized and sold to retail customers. FINRA indicates that a product that is complex is one that "presents an additional risk to retail investors because its complexity adds a further dimension to the investment decision process beyond the fundamentals of market forces." This is only a general description since all the potential variations in products make it difficult to clearly define the term. The last subsection of this section includes examples of complex products from FINRA Regulatory Notice 12-03.

The complexity of products imposes additional obligations on RRs who sell such products, as well as on Company to supervise their sale. Other sections in this chapter that discuss specific complex products include:

* *Hedge Funds*
* *Exchange-Traded Funds*
* *Commodity Futures-Linked Securities*
* *Non-Conventional Investments (NCIs)*
* *Structured Products*
* *Exempt Insurance Products and Equity-Indexed Annuities*

### 14.35.1 Approval of the Product

All new products are subject to Company's new product review process, and for complex products, there is a heightened level of review. If a complex product is approved for sale, training and other informational materials will be provided to RRs and, if appropriate, to potential investors. The types of investors suitable for the product will also be identified and communicated to RRs.

### 14.35.2 Knowledge of the Product

The RR will be provided training regarding the features of a complex product and/or provided guidelines and overviews of products on Company’s website as a reference. Before recommending complex products, RRs must understand the features and characteristics of the product and any reference asset (where applicable) including its historic performance and volatility and correlation with specific asset classes; any interrelationship between multiple reference assets; the likelihood that the complex product may be called by the issuer; and the extent and limitation of any principal protection. Knowledge of these aspects as well as how the product is expected to perform in normal market conditions and the risks are necessary to be able to present accurate information to prospective investors and to be able to make suitable recommendations.

### 14.35.3 BI of Recommendations

Knowledge of the product is key to making BI recommendation. The other key aspects of a suitable recommendation include:

* The customer's investment experience;
* The customer's risk tolerance;
* A reasonable basis for believing, at the time of recommendation, that the customer has the knowledge and experience in financial matters that he/she may reasonably be expected to be capable of evaluating the risks;
* The customer is financially able to bear the risks of the investment;
* If the customer if close to retirement age or is retired;
* The percentage the investment represents (concentration) of the customer’s holdings;
* The effect of early withdrawals including fees, taxes, or penalties; and
* Any state securities rules and requirements.

The RR should discuss the features of the product with retail customers including how it is expected to perform under different market conditions, the risks and possible benefits, scenarios in which the product may perform poorly, and the costs of the product. The RR should consider whether it seems the retail customer understands the basic features of the product such as the fundamental payout structure and the nature of underlying collateral or a reference index or asset.

### 14.35.4 Other Requirements

There may be other requirements related to the sale of a complex product, including:

* Limits or conditions on the sale of the product, such as concentration limits or limits on the types of investors who may purchase the product;
* Investor qualification agreements to pre-qualify potential purchasers;
* Limitation on purchasers to those who have been approved for option trading, which provides a minimum qualification to participate in the investment.

### 14.35.5 Examples of Complex Products

* Asset-backed securities that are secured by a pool of collateral such as mortgages, payments from consumer credit cards or future royalty payments on popular music, may be difficult for retail investors to understand. With these securities, the creditworthiness of the underlying borrowers or the existence of prepayment risks, though critical to the evaluation of the product, may not be readily apparent to retail investors. Similarly, unlisted REITs may present liquidity and valuation issues for a retail investor.
* Products that include an embedded derivative component that may be difficult to understand, such as those in which:
  + Repayment of principal or payment of yield depends upon a reference asset, when information about the performance of the reference asset is not readily available to investors. An example is structured notes with an embedded derivative for which the reference asset is a constant maturity swap rate.
  + There are different stated returns throughout the lifetime of the product. For example, "steepener" notes typically offer a relatively high teaser coupon rate for the first year, after which they offer variable rates determined by the steepness of a yield curve. Similarly, some firms have offered structured notes with payoffs contingent on whether one or more reference asset performs within a certain range.
  + The investor might incur a capital loss as a result of the fall in the value of the reference asset without being able to participate in an increase in its value. So-called "reverse convertible notes" may fall into this category.
  + A change in the performance of the reference asset can have a disproportionate impact on the repayment of capital or on the payment of return. For example, "knock in" or "knock out" features associated with reverse convertible notes, in which a drop in the value of the reference asset to a pre-defined level, can affect determination of an investor's gains or losses.
* Products with contingencies in gains or losses, particularly those that depend upon multiple mechanisms, such as the simultaneous occurrence of several conditions across different asset classes. An example is range accrual notes for which the return of principal can depend upon the value of two or more reference assets on certain pre-defined dates.
* Structured notes with "worst-of" features, which provide payoffs that depend upon the worst performing reference index in a pre-specified group. These notes can limit the return of principal at maturity if either the reference index falls by a stated percentage (*e.g.,* 30 percent) or if any of the reference indices decline in value since the date of issue.
* Investments tied to the performance of markets that may not be well understood by many investors. For example, some exchange-traded products offer retail investors exposure to stock market volatility. Some of these products also provide inverse or leveraged exposure. The investable form of volatility may be in the form of futures on the CBOE Volatility Index (VIX) that reflect the market's expectation of volatility. Some investors may not understand that the product's return may not be based on VIX fluctuations actually experienced on a given day, but on the market's expectation of future volatility.
* Products with principal protection that is conditional or partial, or that can be withdrawn by the product sponsor upon the occurrence of certain events. Notes that can lose their principal protection based upon a stated event represent an example of a product with this feature.
* Product structures that can lead to performance that is significantly different from what an investor may expect, such as products with leveraged returns that are reset daily. Leveraged or inverse exchange-traded funds exemplify this feature. Many leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated leverage or inverse objectives on a daily basis. Their performance over longer periods of time can differ significantly from what might be expected based on their daily leverage or inverse factor.
* Products with complicated limits or formulas for the calculation of investor gains. For example, some structured notes have a payout structure that tracks the upside performance of a reference asset one-for-four, but if the reference asset's performance exceeds a specified threshold the payoff is reduced to a much lower, pre-set level, regardless of how it performs afterward.

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# 15. INSURANCE PRODUCTS

## 15.1 Introduction

This section outlines requirements and procedures when offering insurance products to customers. Insurance products include the following:

* Variable Annuities
* Variable Life Contracts;
* Fixed Annuities (submitted through Company); and
* Indexed Annuities

Designated supervisors have the responsibility for overseeing insurance transactions.

In addition, Company will adhere to the NAIC Military Sales Practices Model Regulation guidelines and the NAIC Suitability in Annuity Transactions Model (amended and effective 09/01/21). Company will follow the applicable standards to protect members of the Armed Forces from dishonest and predatory insurance sales practices while on or off military installations. However, Company prohibits the sale of any insurance products on military installations. Further information on the regulations can be found at <https://www.naic.org> and <http://www.naic.org/documents/topics_military_life_report_to_congress.pdf>.

References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

## 15.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principal |
| **Statutes** | * FINRA Rule 2320 – Variable Contracts * FINRA Rule 2821 – Deferred Variable Annuities * NAIC Suitability in Annuity Transactions Model |
| **Frequency** | * As required * Daily trade blotters * Annual training |
| **Actions** | * Review of order information * Review of TRACE reporting * Provide training to Associated Persons |
| **Records** | * Trade blotters * Application Documents * Tickets for Approval (Vas) * New Account Forms * Disclosure Forms and VA Worksheets * Insurance retail communication * Training records |

## 15.3 Selling Agreements

All Insurance Products offered by the Company must be approved by Morris Monroe or his designee. Such approval will be evidenced by a Selling Agreement and include which product/s offered by the sponsor will be utilized by the Company. Such Selling Agreement will be maintained by the Company and for three years subsequent to termination of the agreement.

## 15.4 Variable Insurance Products

Variable products are insurance contracts with underlying investments generally in investment company (mutual fund) securities. They are a hybrid of insurance and securities products. There are different types of variable products with differing requirements. Key requirements are listed below:

* RRs must have **necessary licensing** to sell variable products, including:
  + securities licensing with FINRA
  + securities licensing in the state where the customer resides (some states waive securities licensing to sell variable products)
  + insurance licensing in the state where the customer resides
* **Supervisors** of RRs who sell variable products **must have required securities supervisory licenses.**

* RRs must be **familiar with features** of variable products before recommending them and explain the features to the customer. Features may include a death benefit, fees and expenses, subaccount choices, special features, withdrawal privileges, and tax treatment. Each product must be reviewed because features vary considerably.
* **Recommendations must be suitable** considering whether features of the product meet the customer's investment needs.
* **If replacing one annuity with another,** a replacement letter/form must be submitted, and the exchange must be justified. Factors that must be considered include whether the customer: (1) would incur a surrender charge, be subject to a new surrender period, lose existing benefits, or be subject to increased fees or charges; (2) would benefit from product enhancements and improvements; and (3) has effected another deferred variable annuity exchange within the preceding 36 months (whether at the Company or another broker-dealer).
* Purchases or exchanges of deferred variable annuities require completion of the **Deferred Variable Annuity Worksheet** which is provided to the supervisor with a copy of the purchase contract and new account information about the customer.

* There are specific **requirements that apply to advertising and other communications** about variable products, particularly regarding yield, dollar cost averaging, and other representations of return.
* When a **customer redeems an annuity,** a signed redemption form must be submitted with the customer's signature guaranteed.

### 15.4.1 Suitability

In recommending the purchase of a variable contract, a registered representative of the Company should have reasonable grounds for believing that the recommendation is suitable for such customer as to his or her other security holdings and as to his or her financial situation or needs. Suitability for these products must be assessed on a case-by-case basis by first the registered representative and then the Designated Principal.

A suitability review must be conducted as evidenced by the New Account form. All the same requirements as with other products apply to variable insurance products, including OFAC search, driver’s license copy, etc.

Insurance Products are long-term investments which may provide tax deferral benefits for clients. Rarely should Insurance Products account for more than fifty percent (50%) of a client’s portfolio. Representatives must ensure that the characteristics of the underlying investment accounts are suitable for the customers. Any replacement of an existing insurance contract will be closely scrutinized prior to approval to ensure the new contract’s suitability for the client. Switching from one contract to another similar contract will only be allowed if it can be shown that the client will receive a substantial benefit from the switch. A comparison such as “Average Five-Year Annual Returns” is not adequate to justify subjecting the customer to extended withdrawal periods and other potential costs associated with switching. The registered representative and the Designated Principal will determine, based on the information provided by the customer and their own knowledge of the product features that replacing the existing contract with a new contract is suitable for the customer. Consideration should be given to such matters as product enhancements and improvements, lower cost structures, and surrender charges. Associated Persons will use the WSC Investment Products Receipt and Disclosure Form for Insurance Products or the Product Questionnaire provided by the insurance company to disclose pertinent information about the product as well as any applicable exchange or replacement.

Further, while the investment accounts offered with many Insurance Products are modeled after or may be “clones” of existing mutual funds, Representatives shall not lead customers to believe that these products are mutual funds and shall not use the performance history of the original funds as a predictor for the investment accounts within the Insurance Products. This prohibition extends to both verbal and written solicitations.

When recommending a variable annuity, registered representatives will make reasonable efforts to obtain comprehensive customer information, including the customer’s occupation, marital status, age, number of dependents, investment objectives, risk tolerance, tax status, previous investment experience, liquid net worth, other investments and savings, and annual income. Retention of this customer information will be made in conjunction with the maintenance of basic customer account information.

The registered representative will seek to ensure that the variable annuity application and any other information provided by the customer is complete and accurate, and promptly forwarded to a registered principal for review.

When a variable annuity transaction is recommended to a customer, the registered representative and the Designated Principal will review the customer’s investment objectives, risk tolerance, and other information to determine that the variable annuity contract as a whole and the underlying sub accounts recommended to the customer are suitable. The Designated Principal will compare the information in the account application with other relevant information sources, *e.g.,* an account information form, to check for apparent accuracy and consistency prior to approving the transaction.

#### 15.4.1.1 Suitability of Multi-Class Variable Annuities

Some variable annuities are "multi-class" and offer different features depending on the class of the annuity. An example of classes includes the following:

* A Shares: Up-front sales charge, typically no surrender period
* B Shares: Longer surrender period, typically lowest mortality and expense risk (M&E) fees
* C Shares: No surrender period, higher M&E fees
* L Shares: Shorter surrender period, higher M&E fees
* O Shares: No up-front sales charge, surrender period similar to B-Shares, progressively declining M&E fees
* X Shares: "Bonus Shares" or "Premium Enhanced," longer surrender period, moderate M&E fees, up-front bonus investment credit

Different variable annuities may also offer "riders" which are optional add-ons that annuity buyers may choose, usually at extra cost which may be an annual fee. Two popular types of VA living benefit riders are guaranteed minimum withdrawal benefits (GMWBs) and guaranteed minimum income benefits (GMIBs). Riders may or may not pay off depending on how long the customer holds the annuity, the age of the customer, and other factors that must be considered when determining the suitability of riders. In particular, long-term income riders may not be appropriate when considering L-shares for investors since L-shares have a shorter-term surrender period.

When recommending multi-class shares, RRs must consider the following:

* Assessing and documenting suitability
* Education of the customer regarding class options
* Relatively higher M&E fees (one class vs. another)
* Impact of fees on overall returns
* Benefits over other share classes
* Commissions influencing recommendations
* Suitability of riders and related cost, potential payback
* Assure customer awareness of fee differentials
* Explanation of rationale for recommendation

### 15.4.2 Processing

After the Registered Representative receives a completed application and a check made out to the appropriate product sponsor, the application will be forwarded to the designated principal or designee, for a suitability review and approval. The application and check will be forwarded to the product sponsor and a copy will be placed in the customer’s file. The receipt and forwarding of the check will be entered on the “Checks Received and Delivered Blotter” or “Trade Blotter” under “Trade Date” and applications will be forwarded to the issuer. Checks must be forwarded to the sponsor on or before noon of the business day following receipt by the representative. Contracts will be promptly forwarded to the recipient upon receipt by the Company. The Insurance Products Investment Receipt and Disclosure form must also be completed and signed, and a copy forwarded to the Company.

### 15.4.3 Sales Charges

The company will not participate in the offering or in the sale of variable annuity contracts if the purchase payment includes a sales charge which is excessive:

(1) Under contracts providing for multiple payments, a sales charge shall not be deemed to be excessive if the sales charge stated in the prospectus does not exceed 8.5% of the total payments to be made thereon as of a date not later than the end of the twelfth year of such payments, provided that if a contract be issued for any stipulated shorter payment period, the sales charge under such contract typically should not exceed 8.5% of the total payments thereunder for such period.

(2) Under contracts providing for single payments, a sales charge shall not be deemed to be excessive if the prospectus sets forth a scale of reducing sales charges related to the amount of the purchase payment which is not greater than the following schedule:

* First $25,000 8.5% of purchase payment
* Next $25,000 7.5% of purchase payment
* Over $50,000 6.5% of purchase payment

(3) Under contracts where sales charges and other deductions for purchase payments are not stated separately in the prospectus the total deductions from purchase payments (excluding those for insurance premiums and premium taxes) shall be treated as a sales charge for purposes of this Rule and shall not be deemed to be excessive if they do not exceed the percentage set forth above.

The Company will not participate in the offering or in the sale of a variable contract on any basis other than at a value to be determined following receipt of payment therefore in accordance with the provisions of the contract, and, if applicable, the prospectus, the Investment Company Act of 1940, and applicable rules thereunder. Payments need not be considered as received until the contract application has been accepted by the insurance company.

The Company will not participate in the offering or in the sale of a variable contract unless the insurance company, upon receipt of a request in proper form for partial or total redemption in accordance with the provisions of the contract undertakes to make prompt payment of the amounts requested and payable under the contract in accordance with the terms thereof, and, if applicable, the prospectus, the Investment Company Act of 1940 and applicable rules thereunder.

### 15.4.4 Compensation

In connection with the sale and distribution of variable contracts:

(1) Except as described below, the Company or any associated person will not accept any compensation from anyone other than the company. This requirement will not prohibit arrangements where a non-member company pays compensation directly to associated persons, provided that:

(A) The arrangement is agreed to by the Company;

(B) The Company relies on an appropriate rule, regulation, interpretive release, interpretive letter, or "no-action" letter issued by the Commission that applies to the specific fact situation of the arrangement;

(C) The receipt by associated persons of such compensation is treated as compensation received by the member for purposes of the Rules of the Association; and

(D) The record keeping requirement in paragraph (3) is satisfied.

(2) The company or any associated person will not accept any compensation from an offeror which is in the form of securities of any kind.

(3) Except for items as described in subparagraphs (4)(A) and (B), the Company will maintain records of all compensation received by the Company or its associated persons from offerors. The records shall include the names of the offerors, the names of the associated persons, the amount of cash, the nature and, if known, the value of non-cash compensation received.

(4) The Company or its associated persons will not directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as provided in this provision. Notwithstanding the provisions of paragraph (h)(1), the following non-cash compensation arrangements are permitted:

(A) Gifts that do not exceed an annual amount per person fixed periodically by the Association and are not preconditioned on achievement of a sales target.

(B) An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target.

(C) Payment or reimbursement by offerors in connection with meetings held by an offeror or by a member for the purpose of training or education of associated persons of a member, provided that:

(i) The record keeping requirement in paragraph (3) is satisfied;

(ii) associated persons obtain the Company’s prior approval to attend the meeting and attendance by a member's associated persons is not preconditioned by the member on the achievement of a sales target or any other incentives pursuant to a non-cash compensation arrangement permitted by paragraph (4)(D);

(iii) The location is appropriate to the purpose of the meeting, which shall mean an office of the offeror or the member, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings;

(iv) The payment or reimbursement is not applied to the expenses of guests of the associated person; and

(v) The payment or reimbursement by the offeror is not preconditioned by the offeror on the achievement of a sales target or any other non-cash compensation arrangement permitted by paragraph (4)(D).

(D) Non-cash compensation arrangements between the Company and its associated persons or a non-member company and its sales personnel who are associated persons of an affiliated member, provided that:

(i) The member's or non-member's non-cash compensation arrangement, if it includes variable contract securities, is based on the total production of associated persons with respect to all variable contract securities distributed by the member;

(ii) The non-cash compensation arrangement requires that the credit received for each variable contract security is equally weighted;

(iii) No unaffiliated non-member company or other unaffiliated member directly or indirectly participates in the member's or non-member's organization of a permissible non-cash compensation arrangement; and

(iv) The record keeping requirement in paragraph (3) is satisfied.

(E) Contributions by a non-member company or other member to a non-cash compensation arrangement between a member and its associated persons, provided that the arrangement meets the criteria in subparagraph (4)(D).

### 15.4.5 Retail Communication

Retail communication of variable products must provide a level of disclosure sufficient to allow the customer to make a fair and informed investment decision.

All retail communication concerning variable contracts shall be filed with the FINRA Advertising Department within 10 days after its first use or publication; however, such material shall be filed in advance of use whenever feasible. If any such material incorporates the use of rankings, it shall be filed with the FINRA at least 10 days prior to its initial use. Morris Monroe or his designee will indicate his approval of the material by initialing the document and placing it in the advertising folder.

In light of the complexities and unique nature of variable products, it is essential that potential investors understand what they are being offered. Consequently, the Guidelines require that communications concerning variable products must clearly identify the product. Where product type is identified in a proprietary name, it is not necessary to include a generalized statement identifying product type. In order to prevent confusion in variable product sales material, no statement or presentation may indicate or imply that the product offered or its underlying account is a mutual fund. Although variable product separate accounts may ultimately be invested in mutual funds, there are significant material differences between a variable product investment and a direct mutual fund investment.

As products with potentially substantial tax penalties and charges for early withdrawal, variable products must not be presented by members as short-term, liquid investments. Any discussions or presentations concerning liquidity or accessibility to investment values must be balanced by disclosure of the impact of early withdrawal, such as sales loads, tax penalties, and potential loss of principal. Additionally, regarding the liquidity of variable life insurance products, a balanced presentation requires a discussion of the impact of loans and withdrawals on cash values and death benefits.

Guarantees by insurance companies, such as a minimum death benefit, a schedule of annuity payments, or a fixed return on the investment account, all depend on the claims-paying ability of the issuing insurance company, and thus must not be exaggerated. The company is prohibited from representing or implying that the investment return or principal value of the separate investment account is guaranteed, or that an insurance company’s financial ratings apply to the separate account.

Pursuant to amendments made to the FINRA Rules regarding Group Variable Contracts (GVCs) in August 1996, all sales of GVCs must be submitted through the Company and presented for approval by the assigned principal. The new account form must be completed prior to sale as evidence of suitability review and approval. Any sales made prior to August 1996 are exempt from this requirement.

**Fund Performance**

In order to show how an existing fund would have performed, had it been an investment option in a variable life insurance policy or variable annuity, communications may contain the fund’s historical performance that predates its inclusion in the policy or annuity. Such performance may only be used provided that no significant changes occurred to the fund at the time or after it became part of the variable product. However, communications may not include the performance of an existing fund for the purposes of promoting investing in a similar investment option available in a variable contract. The presentation of historical performance and future projections must conform to all FINRA and SEC standards and specifically with Rule 2210(d) and IM-2210-2. Attention must be given to including all elements of return and deducting applicable charges and expenses.

### 15.4.6 1035 Exchanges/ Replacements

1035 exchanges are permitted under the Internal Revenue Code that permits a contract owner to exchange a variable annuity contract without paying tax on the income and investment gains on the original contract. All 1035 exchanges will require completion of the “Replacement Information” section of the Variable Insurance Product Questionnaire or a comparable form provided by the insurance company. Exchanges must be suitable with particular concerns for senior (65+) investors regarding investment objectives and the costs of making the exchange which must be justified in account or order records. Subsequently, the principal will review all relevant factors to determine if such exchange is in the best interest of the customer. Any rejections will be marked on Company’s Insurance Products Disclosure document and the reason(s). Orders are reviewed also by Compliance. At a minimum, exchanges will be reviewed annually or sooner if required. Any inappropriate number of exchanges will be further reviewed by Morris Monroe who will determine what course of action to take. Any such actions will be documented in the Associated Person records (may be in WinOps)

### 15.4.7 Tax Implications of Variable Products

Customers should be notified of the tax disadvantages of variable products such as tax on any increase in value at ordinary income rates upon distribution, and inclusion of the entire value of the annuity in calculation of the estate tax, and estate tax consequences of naming the insured as the owner of a variable life policy.

When a registered representative recommends the purchase of a variable annuity for any tax-qualified retirement account (*e.g.,* 401(k) plan, IRA), the registered representative will disclose to the customer that the tax deferred accrual feature is provided by the tax-qualified retirement plan and that the tax deferred accrual feature of the variable annuity is unnecessary. The registered representative should recommend a variable annuity only when its other benefits, such as lifetime income payments, family protection through the death benefit, and guaranteed fees, support the recommendation. The Designated Principal will conduct a comprehensive suitability analysis prior to approving the sale of a variable annuity with surrender charges to a customer in a tax-qualified account subject to plan minimum distribution requirements. All applications and Variable Insurance disclosures will be maintained with the customer account information for at least three years and in a readily accessible place for at least two years.

### 15.4.8 Delivery of Variable Contracts

Variable Annuity Contracts will be forwarded to the customer via overnight mail and the date and description logged into WinOps Sent Log.

### 15.4.9 Forwarding of Applications and Payments

Applications and/or purchase payments and at least that portion of the purchase payment required to be credited to the contract for variable contracts shall be transmitted promptly to the issuer. The date the application and/or purchase payment is received will be logged on the blotter along with the date forwarded to the insurance company.

### 15.4.10 Variable Product Financing

Should a customer decide to finance a variable product he/she should be informed; that borrowing against cash value in an existing annuity will deplete the cash value and that there is an interest rate risk associated with any variable rate loan. Registered representatives are not permitted to recommend that a customer mortgage their home or utilize home equity to finance the purchase of a variable annuity. The Designated Principal must approve any financing prior to the financing of any variable contract.

### 15.4.11 Twisting

“Twisting”, which refers to executing trades in a client's account for the primary purpose of generating fees, is forbidden by the Company.

### 15.4.12 Market Timing

Associated Persons may not facilitate or permit customer engagement in market timing in sub-accounts. Market timing is rapid and repetitive in-and-out trading to take advantage of market movements. Variable annuities are intended for longer-term investing and most (if not all) insurance companies do not permit market timing of investments in sub-accounts. **Engaging in market timing or knowingly aiding someone in that activity is strictly prohibited.**

### 15.4.13 Redemption Procedures

Clients must be made aware that variable annuities are long-term investments and that getting out early can mean taking a loss. Many variable annuities assess surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Also, any withdrawals before an investor reaches the age of 59 ½ are generally subject to a 10% tax penalty in addition to any gain being taxed as ordinary income.

Additionally, clients must be made aware that most variable annuities have a sales charge. Like Class B shares of mutual funds, many variable annuities shares typically do not charge a front-end sales charge, but they do impose asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer the contract is held. For example, a surrender charge could start at 7% in the first year and decline by 1% per year until it reaches zero.

### 15.4.14 Annuity Buybacks

Insurance companies sometimes offer to buy back an investor's variable annuity product. RRs may not recommend the customer accept the buyback unless the customer understands if an alternative variable product has less favorable terms and those terms are disclosed to the customer.

### 15.4.15 Change of Addresses

The Company will confirm in writing, any requests to change a customer’s address to the new and old address.

### 15.4.16 Training

Registered representatives who will be engaging in variable annuity business will be trained in these procedures as well as a possible training course in variable products if warranted. Ongoing training will be provided at the annual compliance meeting. In addition, many insurance companies require their proprietary product training prior to reps engaging in sales.

## 15.5 FINRA Rule 2330: Deferred Variable Annuity Transactions

Rule 2821 was developed to enhance broker/dealer operations compliance and supervisory systems for variable deferred annuities which, because of their features and often complex contract options, can cause confusion for both the reps who sell them and the investors who purchase them. The new rule is effective **May 5, 2008** with revisions eff 2/8/10.

(a) General Guidelines

(1) Application: The rule applies to the purchase or exchange of a deferred variable annuity and the subaccount allocations. This Rule does not apply to reallocations of subaccounts made or to funds paid after the initial purchase or exchange of a deferred variable annuity. This Rule also does not apply to deferred variable annuity transactions made in connection with any tax qualified, employer-sponsored retirement or benefit plan that either is defined as a “qualified plan” under Section 3(a)(12)(C) of the Securities Exchange Act of 1934 or meets the requirements of Internal Revenue Code Sections 403(b), 457(b), or 457(f), unless, in the case of any such plan, a member or person associated with a member makes recommendations to an individual plan participant regarding a deferred variable annuity, in which case the Rule would apply as to the individual plan participant to whom the member or person associated with the member makes such recommendations.

(2) Creation, Storage, and Transmission of Documents: For purposes of this Rule, documents may be created, stored, and transmitted in electronic or paper form, and signatures may be evidenced in electronic or other written form.

(3) Definitions: For purposes of this Rule, the term “registered principal” shall mean a person registered as a General Securities Sales Supervisor (Series 9/10), a General Securities Principal (Series 24), or an Investment Company Products/Variable Contracts Principal (Series 26), as applicable.

(b) Recommendation Requirements

(1) No member or person associated with a member shall recommend to any customer the purchase or exchange of a deferred variable annuity unless such member or person associated with a member has a reasonable basis to believe

(A) That the transaction is suitable in accordance with Rule 2310 and, in particular, that there is a reasonable basis to believe that

(i) The customer has been informed, in general terms, of various features of deferred variable annuities, such as the potential surrender period and surrender charge; potential tax penalty if customers sell or redeem deferred variable annuities before reaching the age of 59½; mortality and expense fees; investment advisory fees; potential charges for and features of riders; the insurance and investment components of deferred variable annuities; and market risk;

(ii) The customer would benefit from certain features of deferred variable annuities, such as tax-deferred growth, annuitization, or a death or living benefit; and

(iii) The particular deferred variable annuity as a whole, the underlying subaccounts to which funds are allocated at the time of the purchase or exchange of the deferred variable annuity, and riders and similar product enhancements, if any, are suitable (and, in the case of an exchange, the transaction as a whole also is suitable) for the particular customer based on the information required by paragraph (b)(2) below of this section; and

(B) In the case of an exchange of a deferred variable annuity, the exchange also is consistent with the suitability determination required by subparagraph (b)(1)(A) of this Rule, taking into consideration whether

(i) The customer would incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits (such as death, living, or other contractual benefits), or be subject to increased fees or charges (such as mortality and expense fees, investment advisory fees, or charges for riders and similar product enhancements);

(ii) The customer would benefit from product enhancements and improvements; and

(iii) The customer’s account has had another deferred variable annuity exchange within the preceding 36months.

The determinations required by this paragraph shall be documented and signed by the associated person recommending the transaction.

(2) Prior to recommending the purchase or exchange of a deferred variable annuity, an Associated Person shall make reasonable efforts to obtain, at a minimum, information concerning the customer’s age, annual income, financial situation and needs, investment experience, investment objectives, intended use of the deferred variable annuity, investment time horizon, existing assets (including investment and life insurance holdings), liquidity needs, liquid net worth, risk tolerance, tax status, and such other information used or considered to be reasonable by the member or person associated with the member in making recommendations to customers.

(c) Principal Review and Approval

Prior to transmitting a customer’s application for a deferred variable annuity to the issuing insurance company for processing, but no later than seven business days after the customer signs the application, a registered principal shall review and determine whether he or she approves of the purchase or exchange of the deferred variable annuity. Subject to the exception in this paragraph and treating all transactions as if they have been recommended for purposes of this principal review, a registered principal shall approve the transaction only if the registered principal has determined that there is a reasonable basis to believe that the transaction would be suitable based on the factors delineated paragraph (b) above.

Notwithstanding the foregoing, a registered principal may authorize the processing of the transaction

(i) If they determine the transaction was not recommended; and

(ii) That the customer, after being informed of the reason why the registered principal has not approved the transaction, affirms that he or she wants to proceed with the purchase or exchange of the deferred variable annuity.

The determinations required by this paragraph shall be documented and signed by the registered principal who reviewed and approved, rejected, or authorized the transaction.

(d) Supervisory Procedures

In addition to the general supervisory and recordkeeping requirements of Rules 3010, 3012, 3013, and 3110, the Company has established these written supervisory procedures reasonably designed to achieve compliance with the standards set forth in this Rule. The Company also has (1) implemented surveillance procedures through the WinOps program to determine if any of the Company’s Associated Persons have rates of effecting deferred variable annuity exchanges that may upon review evidence conduct inconsistent with the applicable provisions of this Rule, other applicable FINRA rules, or the federal securities laws (“inappropriate exchanges”) and, (2) has adopted policies and procedures reasonably designed to implement corrective measures to address inappropriate exchanges and the conduct of associated persons who engage in inappropriate exchanges. Such corrective measures may include a warning, a cancellation of any applicable order(s) with full recourse to the customer, reversal of commissions, and/or fines or termination.

(e) Training

The Company will develop and document specific training policies or programs reasonably designed to ensure that associated persons who effect and registered principals who review transactions in deferred variable annuities comply with the requirements of this Rule and that they understand the material features of deferred variable annuities, including those described in the preceding paragraphs of this section. The first training will take place January 5, 2008.

## 16.6 Variable Life Insurance

Variable life insurance is a life insurance contract with an underlying investment component in securities investments. Variable life contracts include two types of policies: variable whole-life and variable universal life. Both allow the policyholder to invest part of the premium in mutual fund-like investment pools called sub-accounts which often include a broad selection of funds from major mutual fund companies. Variable whole-life policies require fixed premiums; variable universal life policies allow the policyholder to vary payments. Variable life insurance offers a death benefit, similar to traditional life insurance. The cash value generated by the investment element is not guaranteed by the insurance company and can fluctuate depending on the performance of the investments.

* Customers must be advised of the risks of variable life insurance including the risk of loss in the underlying investments which may result in a cash value of the policy that is either too low to maintain the value of the death benefit or will become too low if the policyholder does not pay higher premiums.
* Disclosure documents available for variable life products must be provided to the customer at the time of recommendation. A record should be made of provision of the disclosure document (when and to who provided). Many insurance companies provide proprietary disclosure forms as well.
* For variable life insurance contracts, has the customer's need for life insurance already been met?
* RRs should not recommend that customer finance a variable life insurance policy from the value of another insurance policy or annuity, such as through the use of loans or cash values, unless the transaction is otherwise suitable for the customer. It may be difficult to justify such a financing arrangement and the practice is strongly discouraged.

## 15.7 Fixed Annuities

Fixed annuities come under the guidelines pursuant to the NAIC Suitability in Annuity Transactions Model for those reps required to submit such business to the Company (and/or PTE 84-24 for qualified accounts). Reps required to submit their fixed annuity business only include home office reps. A suitability review must be conducted for each prospective purchaser as evidenced by either the new account form along with principal approval or the insurance company suitability review forms for in-house Associated Persons. As well as the three, new forms required by the NAIC Suitability in Annuity Transactions Model which include:

* Insurance Agent Disclosure for Annuities;
* Consumer Refusal to Provide Information; and
* Consumer Decision to Purchase an Annuity Not Based on a Recommendation.

Prior to or simultaneous with any transaction with an insurance company, a general agent contract, if applicable, must be in place OR both the Company and the agent must be appointed with the applicable insurance company. Any checks received for an application must be entered into the Checks Received and Forwarded Blotter and forwarded within 24 hours of receipt. In addition, a record of the transaction will be entered into the Daily Blotter. The Insurance Products Investment Receipt and Disclosure Form must accompany the account paperwork.

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# 16. CERTIFICATES OF DEPOSIT

## 16.1 Introduction

This section addresses rules and procedures related to the offer and sale of Certificates of Deposit. Although not considered a security by the SEC or FINRA, many state securities boards deem them to be, including Texas.

References to "suitability" apply only to those recommendations NOT subject to Regulation Best Interest (BI) which applies to retail customers and is addressed in a separate chapter by that name. Suitability requirements apply to entities and institutions (*e.g.,* pension funds) and natural persons who will not use recommendations primarily for personal, family, or household purposes (*e.g.,* small business owners and charitable trusts). Refer to the Section 5.7 *REGULATION BEST INTEREST (BI)* for requirements when dealing with retail customers.

## 16.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principal |
| **Statutes** | * State Securities Board Rules * FINRA Notice To Members 02-28, 02-69 |
| **Frequency** | * As required * Daily trade blotters * Annual training |
| **Actions** | * Review of order information * Review of New Account documents * Review of Disclosure Forms if applicable * Review of any Retail Communication |
| **Records** | * Trade blotters * Account Documents * Disclosure Forms * Retail Communication * Confidential Surveys * Training records |

## 16.3 Non-Callable CDs

Non-Callable CDs are also FDIC insured up to $100,000. Just as with callable CDs, non-callable CD purchasers must also be suitable for this type of investment. The same suitability review must be conducted for these type investors along with New Account procedures and principal approval. Prior to executing any transaction for a non-callable CD, Company may need a selling agreement in place with the provider (if outside of HTS). Trades must be called in or faxed to the home office the day of the trade for daily entry blotter purposes and commission invoicing to the provider, if applicable. Any checks received for the purchase of a CD will be entered into the Checks Received and Forwarded Blotter and forwarded to the intended recipient within 24 hours of receipt.

## 16.4 Callable Certificates of Deposit

Callable Certificates of Deposit (“CD”) are insured by the Federal Deposit Insurance Corp. up to $100,000. They can be called by the bank before they mature; therefore, they offer a higher rate of interest. With callable CD’s the bank does not permit the customer to withdraw funds until maturity but the CD can be sold in the secondary market without penalty. The callable, book entry, certificates of deposit will be cleared through Hilltop Securities, Inc.

### 16.4.1 Suitability

Callable Certificate of Deposits sold as securities require accurate disclosure as with any security. The callable CDs are sometimes sold to older customers that are on a fixed income. In addition to obtaining the regular customer account information, each customer must be informed that the bank may call the certificates before maturity. Their funds cannot be withdrawn until maturity. They may be sold in the secondary market if there is a market for the particular CD, however, may and likely will incur loss of principal and interest.

### 16.4.2 Guidelines for the Sale of Callable CDs:

In connection with the sale and distribution of callable CDs, Associated Persons must adhere to the following guidelines:

* A thorough suitability review must be conducted by completing the WSC New Account Form in full for a new customer. It is the associated person’s responsibility to make a best effort attempt at gathering background information on a potential customer. It is vital to ascertain a customer’s financial, employment, and investment experience background. However, if a client will not disclose certain personal information, it must be indicated on the form and should be taken into consideration. This form must be completed prior to initiating a trade for a new customer. Because of the long-term nature of callable CDs, associated persons must ascertain the suitability in particular of older investors.
* The WSC Investment Products Receipt and Disclosure Form for Callable CDs with attachments should be given to, explained, and signed by the customer prior to initiating a trade for a new customer or an existing customer with no prior history of callable CD purchases. The form includes 1) The Certificate of Deposit Disclosure Statement, and 2) the SEC Publication, “High Yield CDs: Protect Your Money by Checking the Fine Print.” Because of the longer-term maturities and the call features inherent in callable CDs, it is imperative Associated Persons disclose and obtain evidence of disclosure prior to initiating a trade. In addition, the maturity date should be written in long form (i.e. January 11, 2018) as opposed to numerical format (i.e. 01/11/18) and it is recommended the customer initial the maturity date.
* A principal must review and approve the New Account form prior to executing a trade for a new customer. Subsequent to callable CD purchases for new buyers, Company will forward the Confidential Customer Questionnaire that confirms the customer’s understanding of their purchase and detect any problems. Copy of returned questionnaires will be maintained in a central location as well as in the customer file.
* A selling agreement with wholesalers or issuers may need to be initiated prior to transacting any orders (if outside of HTS). If an Associated Person is interested in a particular issuer, contact the home office for processing.

### 17.4.3 Retail Communication

All callable CD retail communication must be reviewed and approved by the home office prior to use. All such material must provide a level of disclosure sufficient to allow the customer to make an informed investment decision. This includes the term of the issue to be prominently displayed close to the rate information and rates specified in A.P.Y. with “Annual Percentage Yield” spelled out in the disclosure section. In addition, for callable CDs, it must be clear that only the Issuer can call in a CD and not the purchaser. It must be disclosed that the purchaser may receive less than originally invested if sold prior to maturity.

In light of the unique features of callable CDs, it is essential that potential investors understand what they are being offered. Consequently, communications concerning callable CDs must clearly identify the product as such, including the term, and to prevent any confusion, no statement or presentation that may indicate otherwise.

In addition, all communications with the public must disclose prominently the Woodlands Securities name or state “A Branch Office of Woodlands Securities Corporation” under the applicable office name.

### 16.4.4 Ongoing Training and Continuing Education

Company will conduct a thorough training session with each associated person of these new procedures effective 03/09/2001 which will be evidenced by a log with signatures. Thereafter, the Company will conduct continuing education sessions related to callable CD transactions on at least an annual basis, as long as the product is being sold, or sooner if needed. A record of attendance and understanding, evidenced by Associated Person’s signature, will be maintained as part of the Company’s books and records.

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# 17. BUSINESS CONTINUITY MANAGEMENT

Stock Volatility

## 17.1 Introduction

Pursuant to a broker/dealer’s fiduciary duty to its clients as well as expectations of its clients, the Company has developed the following business continuity plans to respond to emergencies, disasters, and contingencies. In addition, it is the Company’s policy to respond to a Significant Business Disruption (SBD) by safeguarding employees’ lives and Company property, making a financial and operational assessment, quickly recovering and resuming operations, protecting the Company’s books and records, Morris Monroe and Laura Hendricks will be responsible for the development and implementation of these procedures designed to provide the strategic and operational framework to both review, and where appropriate, redesign the way the Company provides its products and services while increasing its resilience to disruption, interruption, or loss. In addition, Morris Monroe and Laura Hendricks are the Company’s two emergency contact persons. These names will be updated in event of a material change and will be reviewed within 17 business days of the end of each calendar quarter.

## 17.2 Compliance Chart

|  |  |
| --- | --- |
| **Responsibility** | * Designated Supervisors or Principals |
| **Statutes** | * SEC Rule 17a-3 and 17a-4 – books and records (34 Act Section 240) * FINRA Rule 4370, 4517 – BCP and Emergency Contact (and Notices to Members 06-74 and 04-37) |
| **Frequency** | * As required * Annual review * Annual training |
| **Actions** | * Maintain and update plan as needed * Implementation of Plan if disruption occurs * Provide Plan summary information to customers at account opening and offer annually * Post Plan information on Company Website and update as needed * Provide training to Associated Persons on BCP * Notify FINRA if BCP implemented, any emergency offices activated and contact information, and any request for extension of filings or other items (i.e. CE) if applicable. |
| **Records** | * Customer account documents * Annual offer to customers * Training records * Website |

## 17.3 FINRA Rule 4370. BCP & Emergency Contacts *(eff 12/14/09)*

Pursuant to Rule 4370, Company has created and will maintain a written business continuity plan identifying procedure relating to an emergency or significant business disruption. Such procedures must be reasonably designed to enable Company to meet its existing obligations to customers. In addition, such procedures must address Company’s existing relationships with other broker-dealers and counterparties. The business continuity plan shall be made available promptly upon request to FINRA staff. Company shall update its plan in the event of any material change to the member's operations, structure, business, or location. Company’s plan shall at a minimum, address the following:

(1) Data back-up and recovery;

(2) All mission critical systems;

(3) Financial and operational assessments;

(4) Alternate communications between customers and the member;

(5) Alternate communications between the member and its employees;

(6) Alternate physical location of employees;

(7) Critical business constituent, bank, and counter-party impact;

(8) Regulatory reporting;

(9) Communications with regulators; and

(10) 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.

Company shall address the above-listed categories to the extent applicable and necessary. If any of the above-listed categories is not applicable, Company need not address the category and Company shall document the rationale for not including such category in its plan. If Company relies on another entity for any one of the above-listed categories or any mission critical system, Company’s plan shall address this relationship. Morris Monroe shall approve the plan and he or Laura Hendricks shall be responsible for conducting the required annual review (any such reviewer shall be a registered principal).

Company shall 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. Company shall disclose to its customers how its business continuity plan addresses the possibility of a future significant business disruption and how it plans to respond to events of varying scope. At a minimum, such disclosure shall be made in writing to customers at account opening, posted on Company's Web site and mailed to customers upon request.

## 17.4 Definitions

For purposes of this Rule, the following terms shall have the meanings specified below:

(1) "Mission critical system" means any system that is necessary, depending on the nature of a member's business, to ensure prompt and accurate processing of securities transactions, including, but not limited to, order taking, order entry, execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts and the delivery of funds and securities.

(2) "Financial and operational assessment" means a set of written procedures that allow a member to identify changes in its operational, financial, and credit risk exposures.

## 17.5 Customer Notices

Company shall disclose to its customers how its business continuity plan addresses the possibility of a future significant business disruption and how it plans to respond to events of varying scope. At a minimum, such disclosure shall be made in writing to customers at account opening, posted on Company’s website, and mailed to customers upon request. Our summary addresses the possibility of a future SBD and how we plan to respond to events of varying scope. In addressing the events of varying scope, our summary (1) provides specific scenarios of varying severity (e.g., a firm-only business disruption, a disruption to a single building, a disruption to a business district, a city-wide business disruption, and a regional disruption); (2) states whether we plan to continue business during that scenario and, if so, our planned recovery time; and (3) provides general information on our intended response. Our summary discloses the existence of back-up facilities and arrangements.

## 17.6 FINRA Notices

Company shall report to FINRA, via such electronic or other means as FINRA may specify, prescribed emergency contact information for Company. The emergency contact information for the member includes designation of two Associated Persons as emergency contacts. At least one emergency contact person shall be a Company senior management and a registered principal. If Company designates a second emergency contact person who is not a registered principal, such person shall be a member of Company’s senior management who has knowledge of the Company's business operations. If Company has only one associated person, then it shall designate as a second emergency contact person an individual, either registered with another firm or nonregistered, who has knowledge of the Company's business operations (e.g., its attorney, accountant, or clearing firm contact).

The Company shall 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, Company shall identify, review, and, if necessary, update such designations in the manner prescribed by [Rule 4517](http://finra.complinet.com/en/display/display.html?rbid=2403&element_id=11818).

## 17.7 Plan Guidelines

These guidelines are designed to address two kinds of SBDs. Internal SBDs affect only our Company’s ability to communicate and do business, such as a fire in our building. External SBDs prevent the operation of the securities markets or a number of firms, such as a terrorist attack, a city flood, or a wide-scale, regional disruption. Our response to an external SBD relies more heavily on other organizations and systems, especially on the capabilities of our clearing firm.

The purpose of these guidelines is not intended to be all inclusive, restrictive or overly detailed processes to cover every eventuality that may affect the Company. It is recognized that there may be other courses of action and guidelines may need to be modified or customized to meet specific needs. Such plans are subject to modification, any updates will be posted to our website at [www.woodlandssecurities.com](http://www.woodlandssecurities.com) or social media, and customers may alternatively obtain updated plans by requesting a written copy of the plans by mail.

### 17.7.1 COMPANY ASSESSMENT/ SYSTEMS LIST

The Company, being in the financial services industry relies on many different factors to conduct its business. The Company is an introducing firm and does not perform any type of clearing function for itself or others. We do not hold customer funds or securities. We accept and enter orders. Clearing firm trades are sent to Hilltop Securities, Inc. (HTS) our clearing firm, who executes, compares, allocates, clears and settles our trades. HTS maintains our customers’ funds and securities and as such can grant customers access to same as well as deliver funds and securities. The following factors will be considered in any continuity plan:

**Physical facilities**: located in a multi-tenant, 2-story, leased office building in The Woodlands TX at 10655 Six Pines Dr Ste 100, (281) 367-2483. Building Management: Six Pines Partners, same address/phone, Contact: Shannon Johnston, [sjohnston@woodfininc.com](mailto:sjohnston@woodfininc.com) or Christina Jenkins.

**Branch Offices**

* 14425 Torrey Chase #350 in Houston TX (281) 631-8520, FX (281) 537-6203 which can be reached by car or bus. No order processing.

**Alternate Facility** – 1941 Sawdust Rd, The Woodlands TX 77380, (281) 364-1254, (713) 806-4076.

**Additional Remote access**:

* + 1. 9049 Willow Springs Ln, Conroe TX (936) 321-1287, (816) 805-7016; and
    2. 1162 Tuscan Ridge, New Braunfels TX 78130.

**Employees**: Currently have under 20 persons including office staff and reps and alternate locations in Conroe, Spring, and Houston with additional remote access available above. See contact list below for key team personnel.

**Communications**: the use of data lines, internet, telephones, servers, email is all used as part of our daily communications.

**Mission Critical Systems**: We have contacted our mission critical and business constituents and determined the extent to which we can continue our business relationship with them considering the internal or external SBD. We will quickly establish alternative arrangements if a business constituent can no longer provide the needed goods or services when we need them because of a SBD to them or our firm. The following programs and sources are used:

1. **Momentum** – Internet based program for HTS trading, account information, history, etc., [www.hiltopsecurities.com](http://www.hiltopsecurities.com) and <https://support.hilltopsecurities.com/> 214-859-9165; main 214-859-1800. There is a Relationship Mgr., Hilltop Securities, Inc. (HTS) 717 N Harwood Dr, Dallas TX 75270.

Back Office access: [https://momentum.hilltopsecurities.com/advisor/HTS](https://momentum.hilltopsecurities.com/advisor/HTS%20);

Clients: <https://momentum.hilltopsecurities.com/investor/HTS>

1. **Gorilla Software**: Marketing database. Bill Good – [www.billgood.com](http://www.billgood.com); 800-678-1480. Will still maintain for marketing letter access, etc.
2. **Cloud-Based**: Internet-based CRM – (904) 565-5791, 9000 Southside Blvd. Suite 7500, Jacksonville, FL 32256. Company access:

[https://woodlands.crm.dynamics.com/](https://woodlands.crm.dynamics.com/%20) (Email credentials)

Sales: Brooke Deese McNally: [bmcnally@sscinc.com](mailto:bmcnally@sscinc.comm)

1. **Microsoft Office/Office 365**: used for file records, word processing, etc.
2. **Esignal**: internet-based market information, quotes, etc. - 3955 Point Eden Way  
   Hayward, CA 94545 (Ph.: 800-815-8256, 510-266-6000, Fax: 510-266-6100).
3. **Bloomberg** - (212) 318-2000, 731 Lexington Ave, New York NY 10022, Jacqueline Aresco, [jaresco3@bloomberg.net](mailto:jaresco3@bloomberg.net), 212-617-0538; Bloomberg Vault: Di Yusupov.
4. **QuickBooks/Yardi**: accounting and financial information software program.
5. **WinOps: Backoffice program – Techmate, Inc**. (C5 Solutions): 8960 W Hampden Ave., Lakewood, CO 80235, (303) 985-9956, Rod Lueck Cell: (303) 356-5962, Email: [support@c5solutions.com](mailto:support@c5solutions.com), website: <http://www.opsplus.com>.

Remote Desktop Connection - ftp: 173.239.1114.36; Dashboard: <https://woodlands.repdashboard.com>.

1. **Global Relay**: Email retention and archiving: 866-484-6630 https://www.globalrelay.com/gr-services/message,

Support- [support@globalrelay.net](mailto:support@globalrelay.net),

Hosted Exchange (Office 365): <https://login.microsoftonline.com/>.

1. **Ullrich Cordray & Assoc. LLC** – some partnership tax returns, 1510 IH-45N, Conroe TX 77301, Ph-936-441-3655, Fax-936-756-8563; Jeff Ullrich email [jeffu192@cs.comm](mailto:jeffu192@cs.comm) or John Cordray, [johncordray@compuserve.com](mailto:johncordray@compuserve.com).
2. **Ascend Technology Group** – IT – John Gerdes, (402) 403-4199; [support@ascendtg.com](mailto:support@ascendtg.com); 11003 I Street, Omaha NE 68137
3. **Dennis McCullough: IT Administrator** - 211 East Shepherd, Lufkin TX 75901, cell (936) 414-1114. Backup IT will be Jeff Griggs, Miraculous Solutions, (936) 240-3093.
4. **Amegy Bank**: 10101 Grogans Mill Rd, The Woodlands TX 77380, Contact: Jill Vaughan, (281) 320-6909, Fax: (281) 320-6908 Email: [jill.vaughan@amegybank.com](mailto:jill.vaughan@amegybank.com). Contact has been made to determine financing availability in the event of an SBD.
5. **Website**: [www.woodlandssecurities.com](http://www.woodlandssecurities.com) hosted through **FMG Suite** (old Smarsh, old-Advisor Launchpad) [www.fmgsuite.com](http://www.fmgsuite.com) and <https://secure.fmgsuite.com>, 888-379-5724 and (858) 251-2420 (Site ID# 19047). Facebook: https://www.facebook.com/woodlandssecurities/.
6. **Telephone System: Microsoft Teams** – managed through Ascend Technology.
7. **LiveVault** – HP Autonomy: Data backup, 120 Turnpike Rd, Southborough MA 01772; (508) 808-7489, (800) 638-5518, (855) 288-6778, <https://livevaultservice.livevault.com/Account/Login>

*(Autonomy bought Iron Mountain Digital and HP bought Autonomy)*

[nils.hansen@autonomy.com](mailto:nils.hansen@autonomy.com) or [livevaultsupport@hp.com](mailto:livevaultsupport@hp.com).

1. **Iron Mountain** – Shredding: 5249 Glenmont Houston TX 77081; 800-934-3453, Fax# 281-970-0144, Customer# 4041X.
2. **Harper & Pearson Company, P.C**.: PCAOB member for annual financial audit – Steve Palmerton, One Riverway Suite 1000, Houston, Texas  77056-1973; 713-622-2310; Fax: 713-579-2444; [spalmerton@harperpearson.com](mailto:spalmerton@harperpearson.com).
3. **STAMP Signature Guarantee Program**: (845) 620-9300, FAX: (845) 620-9340, ID# D0096768, Location ID# 07, 08, Corporate Key: 20x5vg, certification and CE – [www.Stampesource.com](http://www.Stampesource.com). Program Administrator- Kemark Financial Services - One Blue Hill Plaza, 11th Floor, Pearl River, NY 10965-8686, Phone: 845-620-9300, Fax: 845-620-9340, E-Mail: [ContactKFS@kemark.com](mailto:ContactKFS@kemark.com), website- <http://www.kemarkfinancial.com>.
4. **RIA**:
   * **Schwab** – Custodian - Texoma Team: (877) 738-6813, Schwab Alliance (Clients): 800-515-2157, Relationship Mgr.: Susanna Schlangen: (713) 212-3129, [Susanna.Schlangen@Schwab.com](mailto:Susanna.Schlangen@Schwab.com%20), 1958 Summit Park Dr Ste 400, Orlando, FL 32810-5938, Advisor Site: **Error! Hyperlink reference not valid.**.
   * **Nationwide** – VA Custodian - (866) 667-0561, 10350 Ormsby Park Place, Louisville, KY 40223, <https://www.nationwideadvisory.com/>.
   * **Black Diamond** – Client Reporting/ Billing - Contact: Jason Crowe, (904) 241-2444, 10151 Deerwood Park Boulevard, Building 400, Suite 300, Jacksonville, FL 32256, Advisor Access: **Error! Hyperlink reference not valid.**

**Clients**: Client accounts are under custody of either:

* HTS: 717 N Harwood Dr, Dallas TX 75270, (214) 859-1800, carolyn.segura@hilltopsecurities.com. Website [www.hilltopsecurities.com](http://www.hilltopsecurities.com).
* Outside Investments: placed directly with mutual fund or insurance companies.

Custodians are responsible for daily account operations, confirmations, and statements (most statements available from the respective websites, HTS, and [www.dstvision.com](http://www.dstvision.com)).

**Regulatory Agencies**:

* US Securities and Exchange Commission (SEC)) – File # 801-55551, 801 Cherry St #1900 Unit 18, Fort Worth, Texas, (817) 978-3821, Fax (817) 978-4944; 100 F St NE, Washington DC 20549, (202) 942-8088, [www.sec.gov](http://www.sec.gov).
* Financial Industry Regulatory Authority (FINRA) – 12801 N. Central Expwy # 1050, Dallas TX 75243, (972) 701-8554, Fax (972) 716-7646; 1390 Piccard Dr, Rockville MD 20850, (301) 590-6500, Fax (301) 590-6340. [www.FINRA.org](http://www.FINRA.org) and <https://firms.finra.org>.

Examining Team/Liaison – New Orleans Office: Brady Perniciaro, 504-412-2445, [brady.perniciaro@finra.org](mailto:brady.perniciaro@finra.org%20); 1100 Poydras Street, Energy Centre, Suite 850, New Orleans, LA 70163; T (504) 522-6527 | F (504) 581-3699

* Municipal Securities Rulemaking Board (MSRB) – 1900 Duke Street Ste 600, Alexandria VA 22314, Main-(703) 797-6600, Fax-797-6700 or Fax-Transaction Reporting-(703) 797-6706, [www.msrb.org](http://www.msrb.org).
* Texas State Securities Board: File # 26417, 208 East 10th Street, 5th Floor,   
  Austin, Texas 78701, (512) 305-8300, Fax: (512) 305-8310, [www.ssb.state.tx.us](http://www.ssb.state.tx.us).

### 17.7.2 CONTINUITY TEAM

In the event of any need for continuity plan, the Company has established the following teams to implement certain processes:

* + Senior Management: Morris Monroe (MLM), Laura Hendricks (LMH)
  + Technology: Ascend Technology, Dennis McCullough (DM),
  + Compliance: Laura Hendricks (LMH)
  + Operations: Christina Jenkins (CAJ), Dan Baker (DEB), Gloria Sedita (GKS), Laura Hendricks (LMH)
  + Accounting and Administration: Anna Garcia (AG), Connie Smith (CS), Laura Hendricks

All key team members will maintain a copy of these procedures offsite or at their residence. In addition, these procedures are posted on our secured access website. The team will confer at a minimum annually to establish clear business responsibility among the team and communication procedures during a continuity plan implementation.

### 17.7.3 CUSTOMERS’ ACCESS TO FUNDS AND SECURITIES

The Company does not maintain custody of customers’ funds or securities, which are maintained at HTS or various vendors for direct application business. In the event of an internal or external SBD, if telephone service is available, our representatives will continue to take market customers’ orders and contact HTS for processing. If our website is available, the Company will post information on the website that customers may access their funds and securities by contacting HTS and list their contact information. If SIPC determines that we are unable to meet our obligations to our customers or if our liabilities exceed our assets in violation of SEC rules, SIPC may seek to appoint a trustee to disburse our assets to customers. We will assist SIPC and the trustee by providing our books and records identifying customer accounts subject to SIPC regulation.

### 17.7.4 DATA BACK-UP AND RECOVERY

Also see Section 10 of the WSP. In the event of an internal or external SBD that causes the loss of paper records, the Company will physically recover any records available in electronic format from Company’s offsite backup from LiveVault. Records are also available from HTS stored electronically. If the primary physical site is inoperable, operations will continue from the back-up physical site at 1941 Sawdust Rd, The Woodlands, Texas or an alternate location. In addition, there is offsite backup of WinOps customer data is stored on Company server. Other remote facilities in The Woodlands, Conroe, and New Braunfels may also be used.

### 17.7.5 FINANCIAL AND OPERATIONAL ASSESSMENTS

In the event of an SBD, Company will immediately identify what means will permit communication with customers, employees, critical business constituents, critical banks, critical counterparties, and regulators. Although the effects of an SBD will determine the means of alternative communication, the options employed may include Company website, telephone voicemail, social media, texts, and email.

In addition, Company will determine the value and liquidity of its investments and other assets to evaluate the ability to continue to fund operations and maintain capital compliance. Company will contact HTS, critical banks, and investors to apprise them of its financial status. If determined that Company may be unable to meet its obligations to those counterparties or otherwise continue to fund operations, Company will request additional financing from its bank(s) or other credit sources to fulfill its obligations to customers and clients. If Company cannot remedy a capital deficiency, the appropriate notices will be filed with regulators.

### 17.7.6 MISSION CRITICAL SYSTEMS

Company’s “mission critical systems” are those that ensure prompt and accurate processing of securities transactions, including order taking, entry, execution, comparison, allocation, the maintenance of customer accounts, access to customer accounts, and assisting in the delivery of funds and securities. More specifically, these systems include those listed above under Company Assessment.

The Company has the primary responsibility of establishing and maintaining business relationships with customers and the sole responsibility for mission critical functions of order taking and entry. The clearing firm provides, through contract, the execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts, delivery of funds and securities, and reporting trades to CAT, TRACE and MSRB/RTRS.

The clearing firm provides that it will maintain a business continuity plan and the capacity to execute that plan. The clearing firm represents that it will advise Company of any material changes to its plan that might affect Company’s ability to maintain its business (the summary of its plan is posted on the HTS website at [www.hilltopsecurities.com](http://www.hilltopsecurities.com)). In the event the clearing firm executes its plan, it represents that it will notify Company of such execution and provide equal access to services as its other customers. If reasonably determined that the clearing firm has not or cannot put its plan in place quickly enough to meet Company’s needs or is otherwise unable to provide access to such services, the clearing firm represents that it will assist Company in seeking services from an alternative source. The clearing firm represents that it backs up records at a remote site. The clearing firm represents that it operates a back-up operating facility in a geographically separate area with the capability to conduct the same volume of business as its primary site. Clearing firm has also confirmed the effectiveness of its back-up arrangements to recover from a wide scale disruption by testing, and it has confirmed that it tests its back-up arrangements.

Recovery-time objectives provide concrete goals to plan for and test against. They are not, however, hard and fast deadlines that must be met in every emergency situation, and various external factors surrounding a disruption, such as time of day, scope of disruption, and status of critical infrastructure—particularly telecommunications—can affect actual recovery times. Recovery refers to the restoration of clearing and settlement activities after a wide-scale disruption; resumption refers to the capacity to accept and process new transactions and payments after a wide-scale disruption.

All customer information stored in WinOps can be readily available with an internet connection since the data is maintained on a server in Colorado.

**Order Taking**: Currently, Company may receive orders from customers via telephone/e-mail and in person visits by the customer. During an SBD, either internal or external, Company will continue to take orders through any of these methods that are available and reliable, and in addition, as communications permit, inform customers when communications become available, what alternatives can be used to send their orders. Customers will be informed of alternatives by telephone, email, our website, social media, or postal service. If necessary, Company will call HTS to place orders or in rare instances, advise customers to place orders directly with the clearing firm at HTS.

**Order Entry and Execution**: Currently, Company enters orders by recording them on paper or electronically and sending them to the clearing firm electronically or telephonically. In addition, paper applications sent directly to the fund or vendor*.* In the event of an internal SBD, we will enter and send records to the clearing firm by the fastest alternative means available, which may include by telephone or entry from an alternate location. In the event of an external SBD, the order will be maintained in electronic or paper format and deliver the order to the clearing firm by the fastest means available when it resumes operations. In addition, during an internal SBD, Company may need to refer customers to deal directly with the clearing firm for order entry. Paper applications could continue to be forwarded via email, fax, USPS, or overnight delivery services depending on each mode’s availability.

**Trade Reporting**: HTS currently reports all trades applicable to CAT, TRACE, and MSRB/RTRS. However, in the event of an SBD for HTS, the Company is registered to report its own trades on all three systems by either Morris Monroe or Laura Hendricks if necessary.

### 17.7.7 ALTERNATE COMMUNICATIONS

**Customers**: Company communicates with customers using telephone, e-mail, our Web site, fax, U.S. mail, and in person visits at our firm or at the other’s location. In the event of an SBD, Company will assess which means of communication are still available, including social media, and use the means closest in speed and form (written or oral) to communicate with the other party. For example, if Company has normally communicated with a party by e-mail but the Internet is unavailable, a telephone call can be placed and follow up where a record is needed with paper copy in the U.S. mail.

**Employees**: Company communicates with its employee using telephone, e-mail, and in person. In the event of an SBD, it will assess which means of communication are still available and use the means closest in speed and form (written or oral) and may also include texts or social media. A call tree will also be employed so that senior management can reach all employees quickly during an SBD. The call tree includes all staff home and office phone numbers. Persons have been identified, noted below, who live near each other and may reach each other in person:

The person to invoke use of the call tree is either Laura Hendricks, or other Compliance personnel.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Caller** | **Call Recipients** | **Home Number** | **Office Number** | **Cell Number** |
| *Laura Hendricks*  *(who has an outside area code) or*  *Morris Monroe* | *Jim Harris or* | *281-583-8213* | *281-631-8520* | *713-825-1421* |
| *Cheryl Hurl* | *281-487-1447* | *281-631-8520* | *281-684-0739* |
| *Morris Monroe* | *281-364-1254* | *281-367-2483* | *713-806-4076* |
| *Dennis McCullough* | *936-699-3079* | *936-634-3378* | *936-414-1114* |
| *Laura Hendricks* | *936-321-1287* | *same* | *816-805-7016* |
| *Gloria Sedita* | *281-893-2795* | *281-367-2483* | *713-443-5852* |
| *Christina Jenkins* |  | *281-367-2483* | *281-223-0075* |
| *David Vaughan* | *936-448-2017* | *281-367-2483* | *713-254-5454* |
|  | *Dan Baker* |  | *281-367-2483* | *(281) 961-4957* |
|  | *Anna Garcia* |  |  | *(936) 240-9598* |
|  | *Rehan Merchant* |  |  | *(281) 546-6679* |
|  | *Connie Smith* |  |  | *(936) 524-0203* |

* + *Text Messaging may work more effectively for cell phone calls depending on disruption, as well as area codes outside the local area of disruption may work more effectively (Laura Hendricks – 816-805-7016).*

**Regulators**: Company is currently member of the SROs listed above under Company Assessment*.* Communication with regulators occurs using telephone, e-mail, fax, U.S. mail, and in person. In the event of an SBD, Company will assess which means of communication are still available and use the means closest in speed and form (written or oral) to the means used in the past. In addition, Company will check with the SEC, FINRA, and other regulators to determine which means of filing are still available in the event of an SBD and use the means closest in speed and form (written or oral) to our previous filing method. If Company cannot contact regulators, it will continue to file required reports using the communication means available.

### 17.7.8 PROCEDURE GRID

The following procedures have been established in the event a continuity plan had to be implemented. They are numbered and described and will be assigned to various types of contingencies plans for implementation.

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Effected Area** | **Procedure** | **Person(s) Responsible** |
| **1** | Telephone System | Contact DataVox 713-881-5353; Report outage for repair to be setup, forward lines if applicable or to temporary cell phone. (Also inform Dennis McCullough 936-414-1114).  Avaya Web Manger: 207.200.186.147 Login: lmh info/ System Settings/ Incoming Call Routing/ Edit main number/ Edit Main 5000 to new destination number (preceded by a “9”)/ Update/ and Update again. | MLM, LMH, CAJ, |
| **2** | Data Line (Internet Connection) | Same as above. If extended interruption, any offsite computer with internet connection may be used for internet services. | MLM, CAJ |
| **3** | Server/Computer Damage | Contact Dennis McCullough (936) 414-1114. Obtain backup tape to restore latest information on a given computer, if applicable, or back onto server. Implement offsite internet access to applicable programs or offsite employee loaded programs. | MLM, LMH, CAJ, |
| **4** | Information Resources | See resources from the above list for contact information. Report information problem. All internet-based programs can be accessed from any computer with internet access | All |
| **5** | Trading Interrupted | Anyone with access to internet can continue trading procedures through HTS. In addition, orders can be called in to HTS (214) 859-1800. Trading functions could be conducted from offsite personnel locations. | LMH, MLM, DPV, GKS |
| **6** | Customer Account Information | Contact Custodian HTS (see information above under Resources). All customer information can be accessed via internet connection. All confirms and statements provided by Custodians. | MLM, LMH, GKS, DEB |
| **7** | Employee Contact | See employee contact information below. In the event employees need to be contacted, all modes of communication will be attempted. In the event of a disaster, all employees available will be contacted and meet at MLM residence for further conference for implementation of planning and processes. | All |
| **8** | Email | In the event email is disrupted, use the following email addresses:  Morris Monroe: [tesa@the4monroes.com](mailto:tesa@the4monroes.com)  Laura Hendricks: [hendricks5@live.com](mailto:hendricks5@live.com)  Gloria Sedita: [gsedita@yahoo.com](mailto:gsedita@yahoo.com)  Dennis McCullough: [dmccullough@pivtech.com](mailto:dmccullough@pivtech.com)  Connie Smith: [csmith4523@aol.com](mailto:csmith4523@aol.com)  Christina Jenkins: [christinajenkins2005@yahoo.com](mailto:christinajenkins2005@yahoo.com)  Daniel Baker [dan64baker@yahoo.com](mailto:dan64baker@yahoo.com)  Ana Garcia [anagarcia054@gmail.com](mailto:anagarcia054@gmail.com%20%20)  Rehan Merchant [rehan@rehanmerchantconsulting.com](mailto:rehan@rehanmerchantconsulting.com%20) | All |
| **9** | Customer files | Company has put into action steps to start the scanning and/or imaging of customer files into computer software programs as an alternate source. WinOps has most Customer account records scanned since 2004. The database is now housed on an outside company server for ease of access. |  |
| **10** | Employee Emergency, Disaster, Death | Implement Employee Backup (See Contacts below). | All |
| **11** | Trade Reporting | **CAT:** [https://ews-public.fip.catnms.com/auth/logon?](https://ews-public.fip.catnms.com/auth/logon?goToUrl=https%3A%2F%2Fews-public.fip.catnms.com%2Ffip%2FSSORedirect%2FmetaAlias%2Fews%2Fidp%3FReqID%3D_14faf248f0804a2eec87fa6651ac225c28ba80%26index%3Dnull%26acsURL%3Dhttps%253A%252F%252Fsrg.catnms.com%252Fsaml%252Fsp%252Fprofile%252Fpost%252Facs%26spEntityID%3Dhttps%253A%252F%252Fsrg.catnms.com%26binding%3Durn%253Aoasis%253Anames%253Atc%253ASAML%253A2.0%253Abindings%253AHTTP-POST) User ID: same as FINRA; MPID: WODL, OSO#: 2697; HTS Reporting ID: 93005. [**help@finracat.com**](mailto:help@finracat.com)  **TRACE**: https://www.finratraqs.org/ email (12/22/21), call **800-243-4284** Tier 1 Customer Service/option 3 and access [https://security.FINRAaq.com](https://security.nasdaq.com) and they will issue pin # to register the certificate. **MSRB/RTRS**: <http://www.msrb.org> – Login-lhendricks. RTRS Web interface Must have a security certificate downloaded – can be accessed through web interfaced by selecting Retrieve your current RTRS Web x.509 Certificate. **703-797-6700** for help. | LMH, MLM, GKS |
| **12** | Death or incapacitation of Morris Monroe | 1. Notify staff and agents. 2. Notify SEC/ FINRA/ TX State Sec Board, any other regulators 3. Amend Form BD, ADV, etc. 4. Continue daily operations; potentially CSM is willing to move here and assume Morris’ positions. | All |
| **13** | Widespread Health Emergency | 1. Continuity Team assess situation and notify Dennis McCullough may need more widespread remote working.  2. May need to implement remote working;  3. Use other offices, companies to help implement daily activities. | MLM, LMH, IT |

### 17.7.9 TYPES OF CONTINGENCIES

Although there may be many types of contingencies that could affect the business operations, the following have been determined to be the most critical or probable and a section added for widespread health emergencies.

#### 17.7.9.1 Overview Chart

|  |  |
| --- | --- |
| **TYPE** | **PROCEDURES FROM GRID** |
| Hurricane | Could be all |
| Flooding | Could be all |
| Fire | All |
| Terrorist Act | All |
| Tornado | Could be all |
| Phone lines disrupted | 1, 6 |
| Computer System Failure | 2,3, 6 |
| Extended Electrical Outage | All |
| Widespread Health Emergencies | Could be all |

#### 17.7.9.2 Widespread Health Emergencies

A widespread pandemic or any biologically based threat could have significant impact on the ability of the Company to continue conducting business. This section outlines the steps Company has or will take in the event of a widespread pandemic.

**Preparatory Steps**

* Compliance will note government resources for information about a pending pandemic (i.e. news outlets, CDC, federal government, etc.);
* Engage relevant cybersecurity procedures (see the Chapter 6, Section 6.2.9: *CYBERSECURITY GOVERNANCE*);
* Identify any alternative firm or firms to handle Company's business for extended periods of time if needed;
* Stock antibacterial and other hygiene products for use by employees;
* Identify alternative work sites;
* Identify employees who can telecommute and establish a list of those employees and what computers and technology will be necessary; and
* Establish supervisory procedures to oversee employees who will telecommute or are relocated to an alternative site.

**Actions**

The following procedures will be followed in the event of a threatened health emergency.

1. Senior Management will meet to determine the potential seriousness of the threat and what action is to be taken if the threat escalates.
2. Determine if employees should work remotely.
3. Notify employees of:
   * available vaccinations or other medication and whether they are mandated;
   * necessary conduct such as avoiding personal contact such as handshaking;
   * access to antibacterial or other hygiene products to reduce infections and transmission of communicable diseases;
   * any requirement to stay home and telecommute;
   * transfer of business/functions to other firms if applicable; and
   * ensure employees have contact list of key personnel.
4. Restrict access to Woodlands Securities Corp by outsiders (customers, vendors, *etc.*).
5. The Emergency Response Team will meet or communicate regularly to determine steps to be taken.

#### 17.7.9.3 Remote Work

If Company decides that multiple employees will work remotely, procedures include the following:

* Provide back-up contact information and redirect phone lines to facilitate customer communications;
* Ask remote staff to report their location to their supervisors, requiring approval prior to making changes to location;
* Provide additional support and communication to staff which may include firm-wide calls and video conferences to provide updates; virtual training; communicating clear guidance about firm expectations; provide additional technology tools, if necessary, for remote workers; provide digital collaboration platforms and applications; and disseminate additional guidance and training regarding technology, tools, and services in a remote work environment; and
* Reminding staff about confidentiality of firm and customer information and cybersecurity and fraud risks.

**Supervision**

* Provide guidance and resources to supervisors which may include regular meetings with senior leadership and supervisors to provide updates, emphasize importance of escalating issues, contacting Compliance regarding concerns and questions, providing electronic checklists and attestations if determined necessary;
* Analyze emerging risks via alerts, exception reports, and any customer complaints;
* Request and/or seek feedback from staff;
* For remote trading supervision, consider enhanced oversight which may include:
  + attestations from traders
  + approval for each trader to work remotely
  + testing trader's remote trading capabilities and review of test results
  + provide supervisors a special supervisory checklist if necessary
  + maintain and update daily a list of all remote traders
  + increase frequency of reviews
  + use communication tools possibly including cameras, chat rooms, daily calls, collaboration tools and conference calls
  + consider recording trading staff and review of conversations
  + implement additional central monitoring and reviews
* Oversight of customer communications which may include:
  + increased email review
  + additional keyword surveillance
  + consider disabling certain features of video conferencing platforms, such as chat, that would be subject to recordkeeping obligations impractical in remote locations
* Enable remote branch inspections if on-site inspections are stopped.

#### 17.7.9.4 Transition Plan

Company intends to have in place a transition plan that facilitates a smooth transition of management or ownership of Company and avoids a disruption of the brokerage services it provides to clients.

1. **Notice**. Company shall provide notice to clients:
   * within five business days from the death, incapacity, termination, retirement, or resignation of Morris Monroe; and
   * within 30 business days from the decision to close, sell, or appoint a successor manager(s) of Company.
2. **Transition Team**. The following employees are designated members of the transition team who are responsible for implementing these procedures and taking all other actions to affect a smooth transition:
   * Laura Hendricks (and any other team member deemed necessary).
3. **Monitoring of Client Accounts**. If transferring any client accounts, each account will be monitored on a daily basis until an orderly liquidation, distribution, or transfer of the client's account(s) to another agent or company can be achieved.
4. **Successor Candidates**. Company shall identify and maintain a list of potential individuals or companies that can act as a short-term substitute or long-term successor. During this process, Company will verify registrations in relevant states, professional certifications, educational background, disciplinary history, and work experience.
5. **Employment Agreements**. Company's employment agreements with key personnel, if possible, will contain provisions:
   * protecting Company's proprietary interests in client relationships;
   * requiring at least 60 days' notification of resignation; and
   * training by such key personnel of other company personnel who can substitute for them after they depart.
6. **Custodian and Other Key Service Providers**. Company will maintain any specific documents or processes that must be completed for client accounts serviced by the third-party service provider to allow the substitute agent to transact business.
7. **Illiquid Assets**. In the event of a likely succession or incapacitation of Company, Company will review client accounts for illiquid assets and form a plan on how they may be orderly liquidated, distributed or transferred to another agent or company can be achieved.
8. **Account Transition**. Company will cooperate with the successor agent or company or transition manager in terms of restructuring client accounts so that they may be transitioned to the successor in a manner consistent with the investment strategy employed by such successor.

### 17.7.10 VARYING TYPES OF SIGNIFICANT BUSINESS DISRUPTIONS (SBD)

|  |  |  |
| --- | --- | --- |
| **SBD TYPE** | **BUSINESS CONTINUATION** | **INTENDED RESPONSE/RECOVERY TIME** |
| Firm only disruption, Office Building disruption, City-wide disruption | Yes | Contingency procedures in place to handle order processing, telephones, emails, etc. Further information to be posted on our website at [www.woodlandssecurities.com](http://www.woodlandssecurities.com). Recovery time should be within 24 hours or with minimal disruption if backup must be restored from alternate facility. Also have three alternate facilities with remote access in The Woodlands, Conroe, and New Braunfels. In addition, WinOps is housed on an outside terminal in Colorado, and data can be accessed via any computer with internet connection. |
| Regional disruption | Possibility of order processing disruption depending on availability of HTS. | Alternate facilities in Conroe, and New Braunfels TX available to facilitate continuation of operations, however, depending on availability of HTS for trade processing; this function may be temporarily processed through an alternate facility based on HTS and/or Schwab contingency procedures. Their BCP information is posted at [www.hilltopsecurities.com](http://www.hilltopsecurities.com) and [www.charleschwab.com](http://www.charleschwab.com) respectively. Recovery time could be between 24 hours to several days depending on availability of backup from alternate facility. (WinOps is now housed on an outside terminal in Colorado, and data can be accessed via any computer with internet connection.) |

### 17.7.11 TEAM CONTACT INFORMATION

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Name** | **Address** | **Home Phone** | **Fax Number** | **Cell** | **Other Email** | **Backup Team** |
| Monroe, Morris | 1241 Sawdust Rd, Spring | 281-364-1254 |  | 713-806-4076 | [tesa@the4monroes.com](mailto:tesa@the4monroes.com) | DPV, LMH,CSM |
| Hendricks Laura | 9049 Willow Springs Conroe TX 77302 | (936) 321-1287 | (936) 321-1287 | (816) 805-7016 | [hendricks5@live.com](mailto:hendricks5@live.com) | CAJ, GKS |
| McCullough, Dennis | 203 Brooks, Lufkin 75901 | (936) 699-3079 |  | (936) 414-1114 | [dmccullough@tafgonline.com](mailto:dmccullough@tafgonline.com) | Griggs |
| Sedita, Gloria | 5726 Spanish Oak Dr Houston 77066 | (281) 893-2795 | Same | (713) 443-5852 | [gloria.sedita@yahoo.com](mailto:gloria.sedita@yahoo.com) (03/09/11) | LMH, DEB |
| Christina | 51Joyce Rd Cleveland 77328 | None |  | (281) 223-0075 | [Christinajenkins2005@yahoo.com](mailto:Christinajenkins2005@yahoo.com) | LMH,GKS, DEB |
| Smith, Connie | 15861 FM 782 N Henderson 75652 |  |  | (936) 524-0203 | [csmith4523@aol.com](mailto:csmith4523@aol.com) | LMH |
| Vaughan, David | 12575 Pearson Rd Montgomery TX 77356 | (936) 448-2017 |  | (713) 254-5454 | [Dvaughan@hotmail.com](mailto:Dvaughan@hotmail.com) | MLM LMH |
| Baker, Dan | 3222 Lazy Lake Ln, Montgomery 77356 | (713) 817-8663 |  | (281) 961-4957 | [dan64baker@yahoo.com](mailto:dan64baker@yahoo.com) | GKS, LMH |
| Hayes, Fonville | 4380 Jericho Road  Ruther Glen, VA 22546 |  |  | (804) 994-1638 | [Fonville.hayes@gmail.com](mailto:Fonville.hayes@gmail.com%20) | CAJ, LMH |
| Garcia, Ana | 3703 Great Timbers Ln. Spring TX 77386 |  |  | (936) 240-9598 | [anagarcia054@gmail.com](mailto:anagarcia054@gmail.com%20) | RM,  CS |
| Merchant, Rehan | 5915 Vinland Shores Ct Spring TX 77379 |  |  | (281) 546-6679 | [rehan@rehanmerchantconsulting.com](mailto:rehan@rehanmerchantconsulting.com) | CS, AG |

*\* Text messaging may work more effectively for cell phone calls depending on disruption as well as area codes that are outside the local are of disruption may work more effectively.*

### 17.7.12 ALTERNATE FACILITY

In the event a continuity plan requires an offsite facility, the following site will be used as the main facility: Morris Monroe, 1941 Sawdust Rd, Spring TX 77380 (281) 364-1254 and (713) 806-4076, [tesa@the4monroes.com](mailto:tesa@the4monroes.com). Other facilities with remote access and/or trading capabilities are: 1). Laura Hendricks home; and 2). 1162 Tuscan Ridge, New Braunfels TX 78130.

### 17.7.13 BUDGETING

At this time, the Company does not have a separate account setup for addressing continuity planning management. However, Company can and will allocate funds to cover certain expenses in the event of an SBD to facilitate continuing operations.

### 17.7.14 TESTING

To keep our plan current and effective, Company will perform periodic testing of various functions to ensure completion or success. These include:

1. Backup Data: Selected data is backed up monthly and reloaded into system for accuracy and completion. A log is maintained of any backup data restorations and testing.
2. Trading: Trading is occasionally conducted from offsite locations to ensure functionality on an ongoing basis.
3. Telephone system: phones have been forwarded successfully through periodic testing.
4. All alternate emails have been used intermittently. Internet based Outlook tested on an ongoing basis since October 2008 (in the event Company network is unavailable).
5. Alternate Facility: personnel work in alternate facilities (including non-workdays) on an ongoing basis to test functionality.

**Industry Testing**

Regulators designate certain firms to participate in industry-wide business continuity/disaster recovery testing. Testing is conducted once a year; firms are notified that they are required to participate. Firms may also participate on a voluntary basis by submitting a request to FINRA.

Morris Monroe (or other designated supervisor) is responsible for complying with mandatory testing or designating someone to oversee the testing within the timeframes established by FINRA. Firms are expected to fulfill certain testing requirements which could include, for example, bringing up systems on the designated testing day and processing test scripts to simulate trading activity. Firms may also have to report test results or provide other reports to FINRA. Any records of testing conducted, and information provided to FINRA will be retained by Compliance. Anomalies identified during testing will be reviewed and corrected and records retained, if applicable.

### 17.7.15 TRAINING

All key team members will be trained at least annually on reviewing procedures and soliciting input for improvements. Annual training is part of the annual compliance meeting and records are maintained for a period of three years.

## 17.8 Review of Procedures

The business continuity management plans will be approved and reviewed at least annually by Morris Monroe and/or Laura Hendricks on or before 12/31. Revisions will be made as operations or business environments materially change including operations, structure, business or location or to those of the clearing firm. Any changes will be evidenced by the copy date of the WSP.

## 17.9 Approval

THESE PROCEDURES HAVE BEEN REVIEWED AND APPROVED BY MORRIS MONROE, PRESIDENT, AND GENERAL PRINCIPAL.



\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_12/21/22\_\_

### Signature Date

**WOODLANDS SECURITIES CORPORATION**

**SUPERVISORY PROCEDURE MEMORANDUM**

# ACKNOWLEDGEMENT

I, the undersigned have read and understand the foregoing supervisory policies and procedures of the Company and do hereby agree to comply in all respects with such procedures including **Anti-Money Laundering, Privacy policies**, protection of customer information, and the **Prohibited Acts** in Section 4.31.

## INSIDER AND CHINESE WALL PROCEDURES

I, the undersigned have read and understand the foregoing procedures regarding insider trading and Chinese wall procedures, responsibilities of Associated Persons and or designated principals, and I hereby agree to comply in all respects with such procedures. I also understand that any questions regarding insider trading, Chinese Wall procedures and responsibilities of Associated Persons and or designated principals should be directed to Morris Monroe.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature Date

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

## MSRB Rule G-37: Statement of Representations

**Statement of Representations Pursuant to MSRB Rule G-37**

In accordance with the requirements of MSRB Rule G-37 and G-8, I hereby acknowledge and represent that, to the best of my knowledge, I have not made any political contribution to any bond ballot campaign, political action committee or any official of a municipal issuer, Municipal Finance Professional (MFP), non-MFP executive officers, consultants or dealer-controlled or MFP-controlled political action committee(s) which would be in violation of the provisions of MSRB Rule G-37, or which would not otherwise comply with the de minimus exemption provided under MSRB Rule G-37. It is my understanding that the de minimus exemption provides that the provisions of Rule G-37 do not apply to contributions made to officials of issuers which are made by municipal finance professionals entitled to vote for such officials, and provided that such contributions, in total, are not in excess of $250.00 per election (primaries and general elections are treated as separate elections for purposes of this exemption, in accordance with MSRB G-37).

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature Print Name Date

Or

I have made the following related contributions as described above:

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Amount** | **Sent To** | **Description** |
| *Ex: 10/15/10* | *$50.00* | *ABC Representatives PAC* | *Political Action Committee* |
| 1. |  |  |  |
| 2. |  |  |  |
| 3. |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Print Name Signature Date

## Regulatory Compliance Checklist

PLEASE READ EACH QUESTION AND SIGN WHERE INDICATED, INCOMPLETE FORMS WILL NOT BE ACCEPTED. (If any question does not apply, please mark "N/A").

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Yes** | **No** | **N/A** | | **Question** | | |
|  |  |  | | Have you received and do you understand the Written Supervisory Procedures with the Copy Date written above? | | |
|  |  |  | | Have you reported to Compliance any complaints you received from a customer or regulatory body? | | |
|  |  |  | | Have you made a reasonable effort to obtain each item of information required by the New Account form?  Have you entered false information on a new account form? | | |
|  |  |  | |
|  |  |  | | Have you conducted all securities and securities related business through the Company? If No, provide explanations (may continue on the back of sheet if needed): | | |
|  |  |  | | Have you placed all customer orders through the OSJ order or back office department, including direct mail-in applications? | | |
|  |  |  | | Have you advised every MF customer of breakpoints in sales charges? | | |
|  |  |  | | Have you advised each customer that investment objectives are not guaranteed? | | |
|  |  |  | | Have you forwarded all customer funds to the OSJ back office for submission to the investment vendor within 24 hours of receipt? | | |
|  |  |  | | Have you reported any applicable private securities transactions to the Company?  If No, please describe below the business activity, beginning date, and any compensation for such activity: | | |
|  |  |  | | Have you reported all outside business activities for which you receive compensation or in which you serve on the board, as an officer, or any controlling position for an entity (including charitable organizations) for compensation or not?  If No, please describe activity, beginning date, and compensation for such activity: | | |
|  |  |  | | Has your home address changed from the previous address reported to the Company or changed in the past year?  If Yes, please provide new address and effective date below: | | |
|  |  |  | | Do you currently maintain a listing in the white or yellow pages of the telephone or other directory?  If Yes, under what name: | | |
| **Yes** | **No** | **N/A** | | **Question** | | |
|  |  |  | | Do you or your spouse have a personal securities account? This would include any account where you have a personal beneficial interest or any account where you have control over the investments  Mutual Funds only \_\_\_\_\_ General Securities \_\_\_\_\_  If you answered Yes to a General Securities account, and it is held outside of Woodlands Securities Corporation or RIA, provide the information below:  Name of broker/dealer: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Phone Number: (\_\_\_\_) \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Account Number: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Account Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Account Representative: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Previously reported to Compliance Department: Yes \_\_\_\_\_ No \_\_\_\_\_  Does the Compliance Department currently receive duplicate monthly statements? | | |
|  |  |  | | Do you maintain a bank or securities account with a Company customer that has not been previously reported to the Company? If yes, explain: | | |
|  |  |  | | Do you have any interest in a foreign bank account(s)?  If yes, is the amount greater than $10,000?  If so, please provide further details here (name of bank, country, purpose, etc.) | | |
|  |  |  | | Have you misstated or omitted a material fact regarding an investment to a customer? | | |
|  |  |  | | Have you opened a fictitious account? | | |
|  |  |  | | Have you solicited business or accepted an order before being properly licensed for the product and fully licensed in the state of residence of the customer?  If Yes, provide explanation | | |
|  |  |  | | Have you deposited customer funds into a personal or non-company bank account? | | |
|  |  |  | | Have you switched a customer out of one family of funds and into another without disclosing that commission fees will be charged or other consequences? | | |
|  |  |  | | Have you advised the limitations of exchange privileges to customers who choose to invest in more than one family of funds? | | |
|  |  |  | | Have you projected the future value of a security? | | |
|  |  |  | | Have you agreed to repurchase a security other than a mutual fund as outlined in its current prospectus? | | |
|  |  |  | | Have you sent retail communications to customers or conducted advertising without the prior approval of the designated principal or Compliance Department?  If Yes, provide explanations: | | |
|  |  |  | | Do you conduct any telemarketing activities (cold calling)? | | |
|  |  |  | | Do you SOLICIT designated securities (penny stocks)? | | |
| **Yes** | **No** | **N/A** | | **Question** | | |
|  |  |  | | Have you intentionally made an unsuitable recommendation to a customer?  If yes, provide further explanation | | |
|  |  |  | | Have you encouraged a customer to engage in excessive trading activity? | | |
|  |  |  | | Are you a fiduciary for a customer account not disclosed to Company? | | |
|  |  |  | | Do you have possession of signed stock or bond powers or customer certificates? | | |
|  |  |  | | Do you use personal email, Instant Messaging, Blogs, PDAs, Social Networks, Blackberry (not through the Company or related company domain), Chat Rooms, or Text Messaging, or any other personal electronic means for securities related business?  If Yes, have you forwarded any applicable electronic communication to your Principal or Compliance Department for review?  Provide additional comments: | | |
|  |  |  | |
|  |  |  | | Do you use a social network for any securities business purpose or only for business networking (i.e. LinkedIn, Facebook, MyLife, etc.)? *Please specify:*  Used for securities business?  Used only for networking and communication contact?  Have you furnished a copy of the social network page(s) to Compliance for review, approval, and recordkeeping?  If you have a social network site, have you made any changes to your profile since the last Regulatory Checklist?  If Yes, Have you provided a copy of the changes to Compliance?  Provide any additional comments: | | |
|  |  |  | |
|  |  |  | |
|  |  |  | |
|  |  |  | |
|  |  |  | |
|  |  |  | | Have you given or received a gift, including entertainment and gratuities, to/from a customer or to/from the employees or relatives of a customer or anyone that directly or indirectly has a relationship with Company, including those applicable to foreign government officials, in the aggregate in excess of $100 per person in a one-year, calendar period?  If yes, have you reported to the Compliance Department each gift?  If not, please disclose here: | | |
|  |  |  | | Have you been arrested for any reason not previously reported?  If Yes, please provide details: | | |
| **Yes** | **No** | **N/A** | | **Question** | | |
|  |  |  | | Have you been charged with or convicted of or pled guilty or nolo contendere ("no contest") in a domestic, foreign or military court to any felony or misdemeanor?  If Yes, provide further information with dates, charges, status, disposition, etc. | | |
|  |  |  | | Have you been notified you are currently the subject of an investigation or proceeding or have you been found by the SEC, CFTC, other Federal or state regulatory agency (including securities, banking, insurance), foreign financial regulatory authority, National Credit Union Administration or self-regulatory organization (such as FINRA, NYSE, MSRB, other exchanges) to have violated their rules or have any of these agencies imposed a final order that bars or otherwise disciplines you (that has not been previously reported to the Company)?  If Yes, please provide details: | | |
|  |  |  | | Are you currently involved in or named as a party in an investment related lawsuit or arbitration?  If Yes, please provide details and dates: | | |
|  |  |  | | Have you been suspended or barred from association with a broker/dealer and/or had a securities registration denied, suspended or revoked that has not been previously reported to the Compliance Department? | | |
|  |  |  | | Have you been found to be the cause of either of the two previous questions above for someone else?  If Yes, provide details: | | |
|  |  |  | | Have you ever been an officer, director or 10% or more owner of a broker/dealer which was adjudicated bankrupt or for which a Securities Investor Protection Corporation Trustee was appointed?  To your knowledge, are you associated in a business relationship with anyone to whom any part of this question applies? | | |
|  |  |  | | Have you personally filed for bankruptcy within the last ten years?  If Yes, please provide dates, and details: | | |
|  |  |  | | Do you have any liens or judgments against you? If Yes, provide details: | | |
| **Yes** | **No** | **N/A** | | **Question** | | |
|  |  |  | | Have you become licensed with the SEC or state as a Registered Investment Advisor not previously reported (other than with Avior)?  If Yes, what company and/or state(s)? | | |
|  |  |  | | Have you accepted a fee from a customer for financial planning?  If Yes, provide details: | | |
|  |  |  | | Have you paid an individual who is not a licensed Associated Person for referral services and/or finders fees?  If Yes, provide details: | | |
|  |  |  | | Do you use any professional designation OR any title that indicates expertise in dealing with senior investors or other areas of expertise? If Yes:   1. Has the title been approved by Compliance? 2. If the title is issued by a professional organization, are you in good standing with that organization? Indicate N/A if this does not apply. 3. Have you completed requirements (such as training, continuing education, or other requirements) imposed either by the professional organization or the Company to use the title? | | |
|  |  |  | |
|  |  |  | |
|  |  |  | |
|  |  |  | | Have you loaned to or borrowed money from a customer that has not been previously reported to the Company?  If Yes, provide details | | |
|  |  |  | | Have you sponsored or co-sponsored any private placements and/or received compensation for the introduction of investors in any private placement not initiated by the Company? If yes, complete the following:  Name of Program: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Capacity of Participation:  Public Offering / Private Placement Sponsor:  Amount of Compensation Received: | | |
|  |  |  | | Have you been or are you currently in possession of any inside information as defined in the Trading Policies Section of the WSP?  If Yes, have you reported it to the Compliance Department? | | |
|  |  |  | |
|  |  |  | | Are you in possession of any customer’s login credentials to access his/her account or execute transactions? | | |
| **REGULATION S-P/ Cybersecurity: Do you adhere to the following?** | | | | | | |
| **Yes** | | | **No** | | **N/A** | **Question** |
|  | | |  | |  | I maintain on my laptop and/or PC updated security software (which includes antivirus and firewall protection) to detect, prevent and respond to attacks, intrusions or other systems failures.  If No (explain) |
|  | | |  | |  | I use complex passwords that are changed periodically to access any sites or programs with personal customer information.  If No, explain: |
|  | | |  | |  | My computer is set to time-out after at least 20 minutes of no activity and I am required to input a password to re-enter and my computer is locked or on stand-by if I leave my desk for a meeting or lunch with a password required for re-entry.  If No, explain: |
|  | | |  | |  | At the end of the day all personal customer information is locked away (“clean desk” policy).  If No, explain: |
|  | | |  | |  | I understand and certify that I will comply with Company’s privacy and cybersecurity policies and procedures. |

**I hereby certify that I have read and understand all of the above, and that my responses given to each question are true and correct to the best of my knowledge.**

**X**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature Print Name Date

***PLEASE COMPLETE***

## Personal File Information

Mailing Address: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Home Address \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

EMAIL Address: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Home Phone: (\_\_\_) \_\_\_\_\_\_\_\_\_\_\_\_

Move Effective Date: \_\_\_\_\_\_\_\_\_\_\_

Business Address: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Business Phone (\_\_\_ ) \_\_\_\_\_\_\_\_\_\_\_

Move Effective Date: \_\_\_\_\_\_\_\_\_\_\_

Spouse's Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Spouse's Occupation: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Spouse's Employer: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Have you changed, added or terminated any outside employment since licensing. If so, complete to the information below:

|  |  |  |  |
| --- | --- | --- | --- |
| Name and Address of Firm | From  Mo/Yr | To  Mo/Yr | Position |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

*(Use an additional sheet of paper if necessary.)*

Are you licensed with another broker/dealer (submitted a Form U- 4)? If so complete the information below.

Name of Firm: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Firm ID#: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Phone No.: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Position: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Reason: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name of Firm: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Firm ID#: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Phone No.: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Position: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Reason: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Has this/Have these registration(s) been approved by The Company?

Yes \_\_\_\_\_ No \_\_\_\_\_\_\_. If so, by whom and when:

Attach a copy of your business card(s) in the space below.

*[Attach Business card(s) here]*

*Please staple*

Enclose a copy of the letterhead you use for correspondence with your securities customers.

Thank you, and please return this form immediately.

|  |
| --- |
| For Compliance Department Use Only.  Received: |
| Supervisor: |
| Ok’d By: |
| Reviewed By: |
| Date Reviewed: |
| Comments: |
|  |
|  |
|  |
|  |

# *Exhibit A* – Supervisory Assignment of Registered Reps

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **OFFICE: 10655 Six Pines Dr Ste 100, The Woodlands TX 77380** | | | | | |
|  | **CRD #** | **NAME** | **WSC EFF DATE** | **RR#s** | **OBAs Approved** |
| **1** | **1227631** | **MONROE, MORRIS Responsible Supervisor**  [mmonroe@woodlandssecurities.com](mailto:mmonroe@woodlandssecurities.com) | **07/22/88** | **7968, 3901, QO03** | RIA, WFSI, WSC Holdings Willis Industrial Prtn-Co Member, Timberloch Capital LLC, Woodlands Income Partners, Co, IV-MLM Holdings, MLM Consulting, IV-M Aviation LLC, MLM Family Investments, LLC |
| 2 | 237972 | **HARRIS, JIM**  **OFFICE:** 14425 Torrey Chase #300  Houston TX 77014  [jim@jimcharrisnco.com](mailto:jim@jimcharrisnco.com) | 08/10/89 | 9093, 3898, QO13 | INS (Jim C Harris N Co), Amegy Bank Advisory Board, ~~NW Am Heart Assoc Advisory Board Member~~ |
| 3 | 1455026 | **HENDRICKS, LAURA**-ADMIN  [lhendricks@woodlandssecurities.com](mailto:lhendricks@woodlandssecurities.com) | 12/19/90 | 7899, 3902, QO04 | RIA-Admin, Ins, Church Vocalist |
| 4 | 1832513 | **VAUGHAN, DAVID**  [dvaughan@woodlandssecurities.com](mailto:dvaughan@woodlandssecurities.com) | 09/25/95 | 1808, 3899, QO11 | RIA, Ins, RE investments |
| 5 | 1366633 | **SEDITA, GLORIA** ADMIN  [gsedita@woodlandssecurities.com](mailto:gsedita@woodlandssecurities.com) | 08/21/02 |  | RIA-Admin |
| 6 | 3110267 | HAMILTON, ERIC [eric.hamilton@aviorwealth.com](mailto:eric.hamilton@aviorwealth.com) | 12/19/22 | Pending | RIA, CPA, Attorney, D&E Triangle Ranch, LLC |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

# *Exhibit B -* Notice Forms

### Private Securities Transactions

|  |  |
| --- | --- |
| Name of Account: |  |
| Executing Broker/Dealer: |  |
| Date: |  |
| Security to be Bought/Sold: |  |
| Customer or Account Name: |  |
| Price Per Share: |  |
| Selling Compensation  (Directly or Indirectly) |  |
| RR Signature: |  |
| Authorization By:: |  |
| Does an Investment Advisory Client hold a position in this Security? | [ ] Yes [ ] No |
| If so, was the trade preauthorized? | [ ] Yes [ ] No |

### Outside Business Activities

***(OBA Or Outside RIA Affiliation/Activities)***

**Note:** Employees are required to provide information regarding proposed outside business activities prior to engaging in them, as required by SRO rules. This form should be completed and submitted to Compliance which will review the request and notify the employee and the employee's supervisor of approval or disapproval. Approval is not required for uncompensated charitable activities, but Notice is required. **Use attachments or the reverse side of this form to continue your responses.**

|  |  |
| --- | --- |
| **Information to Be Provided** | **Responses** |
| **1. Name and address of outside business or other organization and any website.** |  |
| **2. Nature of outside business or organization (type of business or activities engaged in).** |  |
| **3. Start Date** |  |
| **4. Explain your proposed involvement and responsibilities, including any title you will hold.** |  |
| **5. Describe any compensation you will receive.** |  |
| **6. Will you have a personal financial investment in this activity? If YES, describe.** |  |
| **7. How many hours/week for this activity?** |  |
| **8. Will any of these hours occur during Company’s normal business hours? If YES, explain.** |  |
| **9. Provide any other information you believe would be helpful in the Company’s consideration of your request.** |  |
| **Print RR Name** |  |
| **RR Signature & Date** |  |

*For Compliance Use Only*

***Date received \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Reviewed by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_***

***□*** *Consider whether the activity is a potential conflict of interest and/or may be viewed by customers as a Firm activity.*

***□*** *Determine whether the activity is a private securities transaction subject to other requirements.*

***□*** *Determine any limitations on the activity.*

***\_\_\_\_\_Approved \_\_\_\_\_Not approved Comments:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_***

*Rev 11/29/10*

### Outside Securities Account Notice

**DATE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**OUTSIDE BROKER/DEALER NAME/ADDRESS/CONTACT PERSON:**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**ACCOUNT TYPE: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**PURPOSE OF ACCOUNT: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Signature**

**FIRM APPROVAL:**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Signature Print Name/Title Date**

### Non-Cash Compensation

|  |  |
| --- | --- |
| Registered Representative Name: |  |
| Vendor Company Name/ Address: | Date & Description of Activity : |
| Compensation Arrangements –  Estimated Value: |  |
| RR Signature: | Date: |
| Principal Name: |  |
| Approved: Not Approved: |  |
| Principal Signature: | Date: |

Criteria for approval:

1. The value of any non-cash compensation does not exceed $100;
2. Attendance is not preconditioned by the achievement of a sales target or any other incentives;
3. No payment or reimbursement is made to any guest of the above-named registered representative.
4. No securities are offered as compensation.
5. The location is appropriate to the meeting.

### Seminar Notice

|  |  |
| --- | --- |
| Associated Person Name: |  |
| Date/Location & Description of Seminar: | |
| Speakers:  Guest Speaker(s): | |
| Checklist:   * Advertisement(s) to be used is attached; * Other material to be used at the event is attached; * List of attendees invited (along with description of list – i.e. age group, demographics, etc.) is attached. | |
| Associated Person Signature: | Date: |
| Principal Name:  Principal Signature: | Date: |
| Approved: Not Approved: |  |
| Comments: |  |

### Business Gift Notification

|  |  |  |
| --- | --- | --- |
| Registered Representative Name: |  | |
| Recipient Name/ Address: | | |
| Date of Gift: | | Estimated Value: $ |
| Description of Gift: | | |
| RR Signature: | Date: | |
| Principal Name: |  | |
| Principal Signature: | Date: | |

### Sharing in Accounts Notice

**Woodlands Securities Corporation**

**FINRA RULE 2330(f)**

|  |  |
| --- | --- |
| Registered Representative Name(s): | |
| Name of Account: | List of Customer Names: |
| Description of Compensation  Arrangements if applicable: |  |
| Description of Type of Account(s) or Securities (if applicable): |  |
| Effective Date: |  |
| RR Signature: | Date: |
| Principal Name: |  |
| Approved: Not Approved: |  |
| Principal Signature: | Date: |

### Discretionary Account Notice

|  |  |
| --- | --- |
| Registered Representative Name(s): | |
| Name of Account: | List of Customer Names: |
| Description of Compensation  Arrangements if applicable: |  |
| Description of Type of Account(s) or Securities (if applicable): |  |
| Effective Date: |  |
| RR Signature: | Date: |
| Principal Name: |  |
| Approved: Not Approved: |  |
| Principal Signature: | Date: |

### Employee Certification of Political Contributions

**TO**: COMPLIANCE

**FROM** : \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

***RE: Quarterly G-37/G-38 Political Contribution Certification***

The Company is required to report certain political contributions to the MSRB. Please complete this form promptly and return to Compliance no later than the 10th of the month following the end of the calendar quarter.

I have made the following political contributions during the past calendar quarter or someone else has made political contributions at my request:

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Amount** | **Sent To** | **Description** |
| *Ex: 10/15/10* | *$50.00* | *ABC Representatives PAC* | *Political Action Committee* |
| 1. |  |  |  |
| 2. |  |  |  |
| 3. |  |  |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature Print Name Date

*For Compliance Use Only*

|  |  |
| --- | --- |
| **Date Received**: |  |
| **Municipal Principal**  **Name & Signature**: |  |
| **Form G-37 Required?**  **If yes, date filed**: |  |

### Professional Designation Notice

**TO**: COMPLIANCE

**FROM** : \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Printed Name Signature DATE

**DESIGNATION NAME**: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FINRA regulatory rules prohibit firms and registered persons from making false, exaggerated, unwarranted or misleading statements or claims in communications with the public. This prohibition includes referencing nonexistent or self-conferred degrees or designations or referencing legitimate degrees or designations in a misleading manner.

Therefore, in an effort to ascertain the use of a new professional designation, the Company needs the following information to determine its validity and use in any communications:

* + 1. Describe the curriculum, if any, required to obtain the designation and is there any emphasis on Ethics:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Are there any Continuing Education requirements: If so, describe: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Is there a method to verify your designation? If so, how? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Is there any public disciplinary process? If so, describe: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Approved Not Approved

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature Principal Name Date

# *Exhibit* *C* - WSP CHECKLIST

**Firm Name/CRD No. Woodlands Securities Corp./ #22373**

Indicate the page number(s) of your procedures (or link to) that addresses each area of supervision

**Supervisory System**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Designation of Principals/CCO - 3010(a)(2); 3013 | [Pg](#_3.3_Designated_Supervisors) | x | x | x | x |
| x | Designation of Offices of Supervisory Jurisdiction - 3010(a)(3), 3010(g) | [Pg](#_3.4.3_Offices_of) | x | x | x | x |
| x | Designation of OSJ/Branch Supervisors - 3010(a)(4) | [Pg](#_3.4.4_Branch_Offices) | x | x | x | x |
| x | Assignment of Registered Persons - 3010(a)(5) | [A1](#ExhibitA) | x | x | x | x |
| x | Determining Qualifications of Supervisory Personnel - 3010(a)(6) | [Pg](#_3.3_Designated_Supervisors) | x | x | x | x |
| x | Annual Compliance Meeting or Interview - 3010(a)(7) | [Pg](#_4.32_Compliance_Meetings) | x | x | x | x |
| x | Periodic Reviews of Business and Supervisory System - 3130 | [Pg](#ReviewProcedures) | x | x | x | x |
| x | Supervisory Personnel Record including titles, registration status and locations - 3010(b)(2) | [Pg](#DesignationofPrinc), [A1](#ExhibitA) | x | x | x | x |
| x | Distribution of Procedures and Amendments - 3010(b)(3) | [Pg](#WSPDistribution) | x | x | x | x |
| x | Consolidated Audit Trail system (CAT) – 6800 (9/22/21) | [Pg](#_8.33_Consolidated_Audit) | x | x | x | x |
| x | Synchronization of Clocks- 7430 | [Pg](#SyncClocks) | x | x | x | x |
| x | Order Execution and Routing Practices – SEC Rule 605, 606 | [Pg](#OrderExecnRouting) | x | x | x | x |
| x | Regulation S-P, S-AM | [Pg](#RegSP) | x | x | x | x |
| x | Money Laundering | [Pg](#AML) | x | x | x | x |
| x | Trade Reporting Compliance Engine (TRACE) | [Pg](#TRACE) | x | x | x | x |
| x | Business Continuity Plan - FINRA Rules 4370 | [Pg](#BCP) | x | x | x | x |

**Financial and Operational Activities**

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| **OK or N/A** | **Area of Supervision – Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Supervisory Responsibility | [Pg](#FinlRecords) | x | x | x | x |
| x | Books and Records - 3110, SEC Rules 17a-3 and 17a-4 | [Pg](#FinlRecords) | x | x | x | x |
| x | Net Capital Rule - SEC Rules 15c3-1, 17a-11, NTM 92-72, 93-30 | [Pg](#NetCapital) | x | x | x | x |
| x | Customer Protection Rule - | [Pg](#CustProtectionRule) | x | x | x | x |
| N/A | Safekeeping and Segregation of Securities - 2330, SEC Rules 8c-1, 15c2-1, 15c3-3, 17a-13 |  |  |  |  |  |
| x | Bank Secrecy Act - SEC Rule 17a-8 | [Pg](#BankSecyAct) | x | x | x | x |
| x | Extension of Credit to Customers - Reg T, | [Pg](#RegT) | x | x | x | x |
| x | Reconciliations of Books and Records - SEC Rules 17a-3 and 17a-4 | [Pg](#FinlRecords) | x | x | x | x |
| x | Accounts with Other Broker-Dealers | [Pg](#ClearingAgmt) | x | x | x | x |
| x | Fees Charged to Customers | [Pg](#FeesCharged) | x | x | x | x |
| x | Financial Reporting - SEC Rules 17a-5 and 17a-11, FINRA By-Laws, Schedule A | [Pg](#FinancialReporting) | x | x | x | x |
| x | Fully-Disclosed Arrangements - 3230, NTM 94-07 | [Pg](#ClearingAgmt) | x | x | x | x |
| x | Fidelity Bond coverage - 3020 | [Pg](#FidelityBond) | x | x | x | x |
| x | Signature Guarantees requirement and proper execution | [Pg](#_5.24_STAMP_Signature) | x | x | x | x |

**Dealing with Customers and Other Activities of Registered REPs**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Suitability of Recommendations – FINRA, MSRB Rule G-19(c) | [Pg](#Suitability) | x | x | x | x |
| x | Unauthorized Trading | [Pg](#UnauthorizedTrading) | x | x | x | x |
| x | Customer Funds and Securities - FINRA, MSRB G-25(a) | [Pg](#HandlingCustChecks), [Pg](#PPCustChecks),  [Pg](#HandlingSecurities) | x | x | x | x |
| x | Prohibition Against Guarantees - 2150, MSRB G-25(b) | [Pg](#Guarantees) | x | x | x | x |
| x | Gifts and Gratuities - 3220, MSRB G-20 | [Pg](#GiftsGratuities) | x | x | x | x |
| x | Accounts Maintained at Other Broker-Dealers - FINRA, MSRB G-28, NTM 91-27 | [Pg](#OutsideSecAccts) | x | x | x | x |
| x | Securities Transactions for Personal and Family-Related Accounts | [Pg](#PersonalTrading) | X | x | x | x |
| x | Private Securities Transactions | [Pg](#PrivateSecTrx) | X | x | x | x |
| x | Outside Business Activities | [Pg](#OBA) | X | x | x | x |
| x | Investment Advisory Activities of Associated Persons | [Pg](#InvestmentAdvisoryActivities) | x | x | x | x |
| x | Lending or Borrowing Money - FINRA Rule 2310 | [Pg](#LendingOrBorrowingMoney) | x | x | x | x |
| x | Interfering with customer acct transfers in employment disputes - FINRA Rule 2140 | [Pg](#Rule2140) |  |  |  |  |
| x | Customer Complaints | [Pg](#CustomerComplaints) | x | x | x | x |

**Insider Trading**

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| **OK or N/A** | **Area of Supervision – Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Firms That Do Not Conduct Investment Banking Business - Method for periodically reviewing employee and proprietary trading for insider trading violations | [Pg](#PersonalTradingReview) | x | x | x | x |
| x | Description of Insider Information and Insiders - NTM 89-05 | [Pg](#InsideInoDefinition) | x | x | x | x |
| x | Material Information | [Pg](#MaterialInformation) | x | x | x | x |
| x | Chinese Wall - NTM 91-45 | [Pg](#ChineseWall) | x | x | x | x |
| N/A | Research - IM-2110-4 |  |  |  |  | x |
| x | Compliance, Restricted, Gray or Watch Lists | [Pg](#WatchRestrictedLists) | x | x | x | x |
| x | Surveillance Activity to Monitor Trading | [Pg](#SpecificTradingLimitations) | x | x | x | x |
| x | Security Procedures | [Pg](#ChineseWall) | x | x | x | x |

**Personnel Matters**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Application for Registration - FINRA By-Laws, Article IV, Section 2(c), Form U-4, 4530 | [Pg](#CertificationOfNewEmp) | x | x | x | x |
| x | Fingerprinting - SEC Rule 17f-2 | [Pg](#CertificationOfNewEmp) | x | x | x | x |
| x | Background Investigations on Prospective Employees - 3010, Form U-5 | [Pg](#CertificationOfNewEmp) | x | x | x | x |
| x | Proper Registration and Licensing - FINRA By-Laws, Article II, Section 2, MSRB Rules G-2 & 3, FINRA Rule 1250 | [Pg](#RegnRequirement) | x | x | x | x |
| x | Outside Business Activities | [Pg](#OBA) | x | x | x | x |
| x | Private Securities Transactions | [Pg](#PrivateSecTrx) | x | x | x | x |
| x | Supervision of Statutorily Disqualified Individuals - FINRA By-Laws, Article II, Section 4, Form MC-400 | [Pg](#StatutorilyDisqualifiedIndiv) | x | x | x | x |
| x | Termination of Registration - FINRA By-Laws, Article IV, Section 3, Form U-5 | [Pg](#TerminationProcedures) | x | x | x | x |
| x | Continuing Education Requirements  - Regulatory Element  - Firm Element  - Needs Analysis  - Training Plan  - Training Material  - Media Utilized  - Books and Records | [Pg](#CE) | x | x | x | x |

**Communications with the Public**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Advertising and Sales Literature - 2210, MSRB Rule G-21 | [Pg](#AdvAndSalesLit) | x | x | x | x |
| x | Direct Contact with The Public and Cold-Calling - NTM 95-54 | [Pg](#ColdCalling) | x | x | x | x |
| x | :Internal Use Only” Material not released to Public | [Pg](#InternalUseOnlyMaterial) | x | x | x | x |
| x | Outgoing Mail principal review | [Pg](#OutgoingMail) | x | x | x | x |
| N/A | Options Communications | N/A |  |  |  |  |
| N/A | Collateralized Mortgage Obligations (CMO’s) - IM-2210-1, NTM 93085 |  |  |  |  |  |
| x | SIPC Coverage - SIPC By-Laws, Article II, Section 4 | [Pg](#SIPC) | x | x | x | x |

**Customer Accounts**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Acceptance of New Accounts – FINRA, SEC Rule 17a-3(a)(9), MSRB G-8(a)(xi) | [Pg](#NewAccounts) | x | x | x | x |
| x | Review of Transactions | [Pg](#AcctActivityReviews) | x | x | x | x |
| x | Review of Accounts | [Pg](#AcctActivityReviews) | x | x | x | x |
| x | Discretionary Accounts | [Pg](#DiscretionaryAccts) | x | x | x | x |
| x | Third Party Accounts - SEC Rule 17a-4(b)(6) | [Pg](#SECRule17a4b6) |  |  |  |  |
| x | Review of Correspondence - FINRA, SEC Rule 17a-4(b)(4) | [Pg](#AdvAndSalesLit) | x | x | x | x |

**Branch Office Activities**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Rules Applicable to Supervision of Branch Office Activities - 3010(a) - (g), NTM 92-18, 89-34, 88-84, 86-65 | [Pg](#OSJ) | x | x | x | x |
| x | Designation and Registration of Branch Offices and Off-Site Locations - FINRA By-Laws, Article III, Sections 1(d) & 8, 3010(a)(3) & (g) | [Pg](#OSJ) | x | x | x | x |
| x | Supervision of OSJs and Branch Offices - 3010(b) | [Pg](#OSJ) | x | x | x | x |
| x | Internal Inspections of OSJs and Branch Offices - 3010(c) | [Pg](#OfficeInspections) | x | x | x |  |
| N/A | Supervision of Non-Branch Business Locations - NTM 86-65 |  |  |  |  |  |
| N/A | Review of Non-Branch Business Locations - 3010(c) |  |  |  |  |  |
| N/A | Broker-Dealer Activity on Premises of Financial Institutions - NTM 95-49, 94-94, 94-47 |  |  |  |  |  |
|  | Documentation of Limited Size and Resources | [Pg](#LimitedSize), | x | x | x | x |
|  | Heightened Office Inspections | [Pg](#HeightenedSupervision) | x | x | x | x |

**Underwriting Activities**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **OK or N/A** | | **Area of Supervision - Applicable Rule** | **Page No.** | | **Who** | | **What** | **When** | | **How Evidenced** |
| x | | Best Efforts Underwritings - SEC Rules 10b-9 & 15c2-4, NTM 87-61 | [Pg](#BestEffortsBasis) | | x | | x | x | | x |
| N/A | | Cooling-Off Period - SEC Rules 10b-6 & 7 |  | |  | |  |  | |  |
| x | | Due Diligence - 2310, SEC Rule 10b-5 | [Pg](#PPDueDiligence) | | x | | x | x | | x |
| N/A | | Filing with the FINRA’s Corporate Financing Dept. - 2710 |  | |  | |  |  | |  |
| x | | Prospectus Delivery Requirements - ‘33 ACT Sections 4(3) & 5(b)(2), NTM 95-42 | [Pg](#PPOfferingMemorandums) | | x | | x | x | | x |
| x | | Private Offerings - ‘33 ACT Section 4(2), Regulation D Rules 501- 506 | [Pg](#RegD) | |  | |  |  | |  |
| N/A | | Regulation A Offerings - Form 1-A |  | |  | |  |  | |  |
| N/A | | Intrastate Offerings - ‘33 ACT Section 3(a)(11), SEC Rule 147 |  | |  | |  |  | |  |
| x | Restrictions on Non Cash Compensation - FINRA Rule 2710 and 2810 | | | [Pg](#PPNonCashComp) | | x | x | | x | x |
| N/A | | Public Offerings (Securities Registration) |  | |  | |  |  | |  |
| x | | Rule 144 Transactions | [Pg](#Rule144), | | x | | x | x | | x |
| x | | Free-Riding & Withholding - FINRA, NTM 95-7 & 86-73, 03-79 | [Pg](#PPFreeRidingWH) | | x | | x | x | | x |
| N/A | | Shelf-Underwritings – 2720 |  | |  | |  |  | |  |

**Riskless Principal Trading and Market Making**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Fair Prices and Commissions - 2440, IM-2440, MSRB Rule G-30, NTM 93-81 & 92-16 | [Pg](#MarkUpsAndComm), [Pg](#MarkupMarkdown) |  |  |  |  |
| x | Guidelines for Best Execution - 2320, MSRB Rule G-18 | [Pg](#RuleG18),  [Pg](#Rule2320), [Pg](#BestExecution) |  |  |  |  |
| x | Limit Order Policy - 2110, IM 2210-2 | [Pg](#LimitOrders) |  |  |  |  |
| x | Payment for Order Flow - 2110, SEC Rules 10b-10 & 11Ac1-3 | [Pg](#_8.28_Payment_for) |  |  |  |  |
| xx | Confirmation Disclosure - 2330, SEC Rule 10b-10 & 17a-4(b)(1), MSRB Rule G-15, NTM 95-2 | [Pg](#_8.28_Payment_for) |  |  |  |  |
| x | Order Ticket Procedures - 3110, SEC Rule 17a-3(a)(b) | [Pg](#OrderTickets),  [Pg](#_8.4_General_Procedures) |  |  |  |  |
| x | Short Selling Activity - 3350 through 3370, SEC Rule 10b-21, NTM 95-8 | [Pg](#_8.21_Short_Sales) |  |  |  |  |
|  | Markups/Markdowns | [Pg](#_12.3_Markups/Markdowns) |  |  |  |  |

**Mutual Funds**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Breakpoint Sales - IM 2830-1, NTM 94-16 | [Pg](#_11.10_FINRA_Rule) | x | x | x | x |
| x | Letters of Intent and Rights of Accumulation | [Pg](#_11.11_Letters_of) | x | x | x | x |
| x | Switching - NTM 91-39 | [Pg](#_11.1_Introduction) | x | x | x | x |
| x | Selling dividends - 2830(e) | [Pg](#_11.15_Selling_Dividends) | x | x | x | x |
| x | Suitability - 2110 | [Pg](#_5.11_Suitability)  [Pg](#_11.1_Introduction) | x | x | x | x |
| x | Contingent Deferred Sales Charge - 2830(d) & (n) | [Pg](#_11.17_Contingent_Deferred) | x | x | x | x |
| x | Prospectus Delivery - ‘33 ACT Section 5 & Review | [Pg](#_11.23_Prospectus_Reviews) | x | x | x | x |
| x | Redemption Procedures - 2830(j) | [Pg](#_11.22_Redemption_Procedures) | x | x | x | x |
| x | Change of Address confirmation | [Pg](#_5.3.2_Customer_Account) | x | x | x | x |
| x | Review of Individual Investor Files and Registered Representative Correspondence with Customers | [Pg](#_5.6_Account_and)  [Pg](#_11.25_Reviews) | x | x | x | x |
| x | Retail Communication Review and confirmation of FINRA Advertising Review | [Pg](#_11.5_Retail_Communications) | x | x | x | x |

**Municipal Securities**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Supervisory Responsibilities - MSRB Rules G-27 & G-9 | [111](#Munis) | x | x | x | x |
| x | Books & Records - MSRB Rules G-8 & G-9 | [120](#MuniBooksAndRecords) | x | x | x | x |
| x | Customer Accounts - MSRB Rules G-8(a)(xi) & G-19 | 10,  [111](#Munis) | x | x | x | xx |
| x | Underwriting Activities - MSRB Rules A-13, G-11, 12, 17, 32, 34, & 36, SEC Rules 15c1-2, 5, 6, & 12 | [111](#Munis) | x | x | x | x |
| x | Political Contributions - MSRB Rules G-8, 9, 37, & 38 | [111](#Munis) | x | x | x | x |
| x | General Sales Practices and Uniform Practices - MSRB G-17 through G-27, 28, 30, & 37 | [111](#Munis) | x | x | x | x |

**Fixed Income Securities**

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Government Securities Act Amendments of 1993 - Sections 102 through 107, NTM 95-48 | [107](#FixedIncomeAndGovtSec) | x | x | x | x |
| N/A | Government Sponsored Enterprises Distribution & Treasury Securities - SEC Rules 10b-5, 15(b)(4)(e) & 17a-3 |  |  |  |  |  |
| x | Mark-Ups - SEC Rule 10b-5, NTM 92-16 | [107](#FixedIncomeAndGovtSec) | x | x | x | x |
| x | Suitability - 2310 | [8](#CustomerSuitability) | x | x | x | x |
| x | Parking - 2110, SEC Rules 10b-5 & 15c3-1 | [108](#Parking) | x | x | x | x |
| x | Adjusted Trading - 2330 | [108](#AdjustedTrading) | x | x | x | x |
| x | Churning - 2110, 2020, 2310, SEC Rules 10b-5 & 15c1-7 | [108](#Churning) | x | x | x | x |
| N/A | Repurchase and Reverse Repurchase Transactions - SEC Rule 15c3-3(b)(4) |  |  |  |  |  |
| N/A | Bonds Borrowed and Loaned Transactions - SEC Rule 15c3-3(b)(3) |  |  |  |  |  |
| x | High Yield Debt - SEC Rules 10b-5 & 14(e)(3), FIPS System | [108](#HighYieldDebt) | x | x | x | x |

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| N/A | Underwritings - 2710 |  |  |  |  |  |
| N/A | Policies related to derivative products and their underlying financial instruments |  |  |  |  |  |

**Direct Participation Program - *(Private Placements)***

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| **OK or N/A** | **Area of Supervision - Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Suitability Standards - 2810(b)(2) | [124](#DirectPartPrivatePlacements) | x | x | x | x |
|  | Disclosure - 2810(b)(3) | [124](#DirectPartPrivatePlacements) | x | x | x | x |
| N/A | Rollups - 2810(b)(5) |  |  |  |  |  |
| N/A | Secondary Trading - 2210, 2310, 2320, 2420, 2440, IM 2440, SEC Rules 10b-10 & 15c2-11, NTMs 94-70, 91-69 |  |  |  |  |  |

**SECTION 15 - Options *–***

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| **OK or N/A** | **Area of Supervision – Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Organization of a Supervisory System for Options - 2860(20) | [109](#Options) | x | x | x | x |
| x | Qualification and Registration of Options Personnel - IM 1022-1, FINRA By-Laws, Article III, Section 1 | 2 | x | x | x | x |
| x | Approving Customers for Options Transactions - 2860(11) & (16), IM 2860-2, 2510 | [109](#Options) | x | x | x | x |
| x | Processing Customer Options Transactions - 2860(3), (4), (6), (12), (19), IM 2860-1 | [109](#Options) | X | x | x | x |
| x | Supervision of Options Activity – 2860(20) | [109](#Options) | X | x | x | x |
| x | Operational and Recordkeeping Consideration for Options - 2860(3), (4), (5), (11), & (17) | [56](#OptionsRecords) | x | x | x | x |
| x | Advertising and Sales Literature for Options – 2220 | [110](#OptionsSalesLit) | x | x | x | x |

**Procedures for Other Products**

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| **OK or N/A** | **Area of Supervision – Applicable Rule** | **Page No.** | **Who** | **What** | **When** | **How Evidenced** |
| x | Sale of Designated Securities/Penny Stocks - SEC Rules 15g-2 through 6 & 15g-9, NTMs 93-55, 92-42, &92-38 | [140](#DesignatedSec) | x | x | x | x |
| x | Variable Contracts - 2820, 3010, 3110, NTM 94-36 | [144](#VAs) | x | x | x | x |
| x | Callable Certificates of Deposit | [169](#CDs) | x | x | x | x |