



Prohibited Transactions

You have seen lots of headlines in recent weeks about market volatility. You also receive numerous emails from Securities America regarding long standing policies as well as real time changes. Today we will recap those pieces of information in one sitting.

Digital assets, aka cryptocurrency-related securities

Solicited purchases and short sales are prohibited. No execution of cryptocurrency-related securities transactions with discretion is permitted.

You must obtain a Letter of Non-solicitation (LONS) **prior** to any purchase or short sale transactions. Purchase and short sale opening transactions will not be executed without a LONS. In obtaining the LONS it is prudent to document your discussions with the customer regarding unsolicited transactions and maintain the discussion notes and LONS in the client file.

Clients are limited to \$5000 per household across the product category. It is your responsibility to verify whether they have additional holdings in the category so they do not exceed this cap.

Only select symbols within this category are approved for purchase. Current list is limited to: GBTC, BTSC, BITCF, CCTL, CINGF, ICOX, RIOT, UBIA, CRCW, BKLLF, BBKCF, BLKCF, PRELF, LFIN, and MGTI.

Leveraged products

Per compliance guide, "Leveraged Funds (i.e., exchange traded funds & mutual funds) seek to deliver multiples (such as 2x or 3x) of the performance of the index or benchmark they track. These investment vehicles typically use debt & derivatives with the goal of enhancing the returns of an underlying index on a periodic basis.

Volatility-Linked Exchange Traded Products (ETPs) are designed to track volatility index futures, such as the Chicago Board Options Exchange Volatility Index(VIX) futures. These products are highly complex financial instruments and are typically designed to achieve their stated objectives on a daily basis. Volatility-linked ETPs are likely to lose value over time and accordingly, are unsuitable for most retail investors.

*Securities America **prohibits** purchases and short sales in customer accounts of Leveraged Funds and their derivatives and Volatility-Linked ETPs and their derivatives regardless of whether the trade is solicited, unsolicited or discretionary. This policy includes options trading in any of these products."*

There are front end controls that are designed to mitigate chance that financial professional initiates a purchase for a leveraged ETF. However, no technology is foolproof so you have an obligation to review

the approved/restricted products lists to make sure the product can be purchased. Anything executed by a rep that gets by the filters will flag within Trade Monitor and require the rep to either bust the transaction or immediately liquidate the position. The client will get to keep the profits if there are any when a trade is busted, but if there is a loss it will be absorbed by the rep.

The wording on some of the rules above vary slightly depending on which compliance guide you access (SAI Field Compliance Manual, SAA Regulatory Compliance Manual, or Arbor Point Advisors Regulatory Compliance Manual) but the essence is the same. Everything stated above applies whether you are executing transactions as an SAI, SAA, or APP rep. You also need to be mindful that you can't use a Third Party Asset Manager to execute a trade that you can't do at NFS or Pershing. Again, these transactions will flag in Trade Monitor and have to be addressed same as above.

Restrictions and scrutiny

Recently trading was suspended on restricted Chinese issuers. The list announced by the NYSE was sent out in the February 1st EStar.

We also received a 'Statement Regarding GameStop & Speculative Securities' January 29th from Advisor Group that cautioned *"In light of the speculative market conditions in certain securities we want to remind financial professionals of their duty of care obligations under Regulation Best Interest and the Adviser's Act. Please expect heightened scrutiny as to the justification of any recommendations in highly speculative securities."*

Bottom line is your clients may get caught up in hype and headlines, but when they come to you it is your obligation to educate them on the pros and cons associated with the investment option(s) they are inquiring about. Regulators require you to have both industry knowledge and client knowledge (Know Your Client rules). That doesn't allow you to be a 'Yes Man'. Sometimes it means protecting clients from themselves by telling them something isn't a suitable investment for them. Per above, Securities America compliance recommends maintenance of notes regarding any recommendations for any of these types of purchases. However, it is also a Best Practice to document that you provided education to a client and recommended AGAINST something that wasn't suitable.

We have just addressed the most common topics. This is not a comprehensive list of all prohibited transactions or products. You can search all compliance rules under [Staying Compliant>Compliance Policies & Procedures](#). You can review previous compliance notices by keyword search of archives through [News>e*Star](#). And as always, you can reach out to our office.