Brighton Securities Corp

Written Supervisory Procedures

May 2021

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Introduction

FINRA Rule 3110 states: “Each member shall establish and maintain a system to supervise the activities of every associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.” This document, Brighton Securities Corp's Written Supervisory Procedures (WSP) manual, was developed and adopted by the firm’s management to comply with this rule.

Our duty to maintain and enforce adequate standards of supervision extends to every aspect of Brighton Securities Corp's activities. Brighton Securities Corp intends to meet all regulatory requirements and has established systems of supervision and internal controls to provide safeguards against the violation of laws, rules, and regulations--most particularly against improper or fraudulent conduct.

Our Chief Compliance Officer (CCO), working with management, is responsible for the issuance and dissemination of all policies, procedures, and directives that govern the conduct of this firm and its associated persons in a manner that encompasses all relevant laws, rules, regulations and interpretations. These compliance policies and procedures are issued to ensure that all employees maintain high standards of ethical conduct and fair principles of trade.

Our Compliance Department is responsible for ensuring that our policies and procedures, as codified in the Written Supervisory Procedures ("WSPs"), incorporate all new regulatory requirements. We will regularly review our supervisory system and controls, make any changes warranted by these reviews, and disseminate this information to our associated personnel through established channels. Failure to heed such directives or communications will result in disciplinary actions, including possible termination.

As it is not possible for this WSP to address every circumstance that may arise or the entirety of the regulatory structure under which Brighton Securities Corp transacts its business, we expect all associated personnel to be thoroughly familiar with all regulations applicable to their activities. Further questions should be directed to Senior Management, supervisory personnel, and the Compliance Department.

All registered employees must receive appropriate training and guidance about the WSP and Financial Industry Regulatory Authority's ("FINRA") Conduct Rules (available by request from the Compliance Department) to learn about their duties and responsibilities.

Supervision

Under the Securities and Exchange Act of 1933, broker-dealers are liable for failure to develop, implement, and maintain a supervisory system with policies and procedures reasonably designed to prevent and detect violations of federal securities laws and self-regulatory organization ("SRO") rules.

FINRA Rule 3110 (Supervision) requires members to develop a written supervisory procedures ("WSP") manual detailing the firm's supervisory system. A senior officer must be designated with overall responsibility to develop, implement, and maintain the supervisory system. The system must identify all the firm's business units, identify supervisors for each business unit, and describe the duties of each supervisor.

To that end, our CCO, working with Senior Management, has put in place an appropriate supervisory system to implement, review, and, when needed, revise the WSP. A copy of our WSP, or the relevant portions thereof will be maintained or electronically accessible at each Office of Supervisory Jurisdiction ("OSJ") and at each location where supervisory activities are conducted.

Annual CEO Certification of Compliance and Supervisory Processes

FINRA Rule 3120 (Supervisory Control System) and FINRA Rule 3130 (Annual Certification of Compliance and Supervisory Processes) require that designated persons annually examine the effectiveness of the supervisory system and report their findings to Senior Management. The CEO (or other designated responsible principal) must then certify to the adequacy of the supervisory system.

CEO and CCO Mandated Meetings

Policy Requirements

Our firm should strive to foster regular and significant interaction between senior management and the CCO regarding the member's comprehensive compliance program.

To implement this goal, our CEO and CCO must meet at least once during the 12-months preceding the certification. This meeting will include:

- A discussion of our firm's compliance efforts to date;
- The identification of any significant compliance problems;
- Time frame and manner in which any significant compliance problems will be addressed; and
- Emerging business areas and attendant compliance matters.

CEO Certification of Compliance

Policy Requirements

According to Rule 3130, annually, but no later than April 1st or the anniversary date of the previous year's certification, Jai Ramachandran will certify that we have processes to establish, maintain, review,

test, and modify written compliance policies and supervisory procedures that are designed to achieve compliance with applicable regulatory laws and requirements, and that our CEO and CCO have met one or more times during the preceding 12-month period to discuss the processes required to be certified. The certification will be based on a Certification Report compiled by the CCO.

Required Certification Language

As required by FINRA Rule 3130, the language used in the annual certification need not be limited to, ut must include the following:

The undersigned is the CEO (or equivalent officer) of this broker-dealer. As required by FINRA Rule 3130, the undersigned makes the following Certification:

1. *We have 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 time and extent of which is reasonably designed to ensure continuing compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations.*
2. *The undersigned has conducted one or more meetings with our CCO during the preceding 12-month period, the subject of which satisfy our obligations as set forth in IM-3130.*
3. *Our processes, with respect to Number 1 above, are evidenced in a report reviewed by me, our CCO and other officers as we have deemed necessary to make this Certification. In addition, if appropriate, the report has been submitted to our board of directors and audit committee or governing bodies and/or committees that serve similar functions in lieu of board of directors and/or audit committee.*
4. *The undersigned has consulted with our CCO, as well as with other officers, employees, outside consultants, lawyers and accountants, to the extent deemed appropriate and/or necessary, in order to attest to the statements made in this Certification.*

Certification Report Requirements

Lori Alberts will produce an annual report prior to the CEO Certification. The report documents our processes for establishing, maintaining, reviewing, testing and modifying our compliance policies. The report must contain the manner and frequency in which each of the required supervisory processes is administered and identify the officers and/or supervisors who are responsible for such administration. The report must be provided to the board of directors and audit committee, or governing bodies serving similar, at the earlier of their next scheduled meeting or within 45 days after the execution of the CEO certification. If these entities do not exist, the report only needs to be distributed to Senior Management.

Report Distribution Requirements

Our CCO will ensure that the Report and attendant certification are appropriately distributed.

We will maintain documentation on individuals to whom the report was distributed along with documentation of any written or oral comments made in return and follow-up actions, and copies of all reports and each annual CEO certification.

Bank Secrecy Act (BSA) Form SAR: Requirements Beyond Money Laundering Activities

Policy Requirements

Government and securities regulatory agencies are concerned that broker-dealers and other financial institutions are failing to look beyond traditional money laundering for suspicious activities.

The Financial Crime Enforcement Network's Form SAR for broker-dealers requires firms to report the following types of suspicious activities:

- Bribery/gratuity;
- Check fraud;
- Computer intrusion;
- Credit/debit card fraud;
- Commodity futures/options fraud;
- Forgery;
- Identity theft;
- Insider trading;
- Mail fraud;
- Market manipulation;
- Money laundering/structuring;
- Prearranged or other non-competitive trading;
- Securities fraud;
- Significant wire or other transactions without economic purpose;
- Suspicious documents or ID presented;
- Terrorist financing; or
- Wire fraud.

Procedures and Documentation

Our AML Principal, working with Senior Management and other appropriate personnel, develops controls based on our business to ensure we uncover all suspicious activity, including the following:

- creating a tailored list of red flags to assist with identifying activity for further due diligence;
- establishing automated systems to monitor and report suspicious activity associated with trading in large volumes;
- adopting procedures that take into account the high-risk nature of our customers' activity; and
- incorporating low-priced securities transactions into our automated monitoring.

At least quarterly, our AML Principal and Lori Alberts, along with other appropriate personnel, will determine and document what transactions need to be reviewed (e.g., the deposit of large amounts of low-priced stocks into accounts or a large wire transaction that does not appear to have any economic purpose) to determine whether further investigation warrants a SAR filing.

Lori Alberts will ensure that our Annual Compliance Meeting addresses this issue.

Branch Offices and Office of Supervisory Jurisdiction ("OSJ")

Definitions

FINRA Rule 3110 defines a "branch office" as "any location where one or more associated persons of a member regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any security, or is held out as such.."

Office of Supervisory Jurisdiction ("OSJ") is any office at which any one or more of the following functions take place:

- order execution or market making;
- structuring of public offerings or private placements;
- maintaining custody of customers' funds or securities;
- final acceptance (approval) of new accounts on behalf of the member;
- review and endorsement of customer orders;
- final approval of retail communications for use by persons associated with the member, except for an office that solely conducts final approval of research reports; or
- responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the member.

Each OSJ has a resident principal responsible for supervision.

Brighton Securities Corp headquarters is designated as an OSJ.

Each branch office that is not an OSJ will be assigned to the supervision of an OSJ.

The designated OSJ supervisor is required to visit non-OSJ branch offices on a periodic basis and record the visit in documents retained by the designated supervisor for the branch location.

Office Records

Offices are required to retain the following records:

- Order records (3 years, 2 recent years in an accessible location);
- New account records (6 years after account closing, in an accessible location);
- Correspondence, incoming and outgoing (3 years, 2 recent years in an accessible location);
- Operations records, including records of receipt/delivery of securities or funds (3 years, 2 recent years in accessible location); and

- Complaints (3 years, 2 recent years in accessible location).

Designation of Offices and Form BR

Procedures and Documentation

Lori Alberts ensures that all office locations, including our home office, receive the correct designation (i.e., OSJ, Supervisory Branch, branch or non-branch) and that individuals who carry out each location's review are qualified and acceptable under FINRA rules. Lori Alberts will ensure that appropriate Form BR filings are made for all off-site locations and maintain copies of all Form BR filings.

Offices of Supervisory Jurisdiction ("OSJ") and Supervisory Branch Offices

Our home office is an OSJ. We do not supervise activities of any associated persons located at one or more non-branch office locations.

As such, our home office has been added to the appropriate classification hereunder.

(a) We have the following OSJ branch offices (to be reviewed at least annually)

1703 Monroe Avenue, Rochester, NY 14618

(b) We have the following Supervisory Branch Offices (to be reviewed at least annually)

N/A

(c) We have the following non-supervisory branch (to be reviewed at least on a 3 year basis)

212 East Main Street, Batavia, NY 14020

172 Lake Street, Hamburg, NY 14075

1966 Hillview Street, Sarasota, FL 34239

10 Chester Avenue, 2nd Floor, White Plains, NY 10601

324 W. Main Street, Falconer, NY 14733

10007 Wilshire Ave NE, Albuquerque, NM 87122

460 Saint Michaels Drive, Suite 1101, Santa Fe, NM 87505

10080 Whitewood Rd., Brecksville, OH 44141

Annually, Lori Alberts will review and document all off-site locations to determine whether any of the currently exempt locations require Form BR registration.

Lori Alberts will review the information available at www.finra.org/crdbranchoffice to stay abreast of state-by-state registration requirements, including:

- Branch Registration Regulators requiring state approval before a branch can conduct business in that state;
- Branch Notice Filing Regulators that do not require approval prior to opening a branch in its jurisdiction but are notified of a branch opening via a Form BR filing; and
- Not currently participating in the WebCRD branch office program and must be contacted directly to determine what actions are required prior to opening a branch in their jurisdiction.

Office Inspection Requirements

Policy Requirements

Under Rule 3110(c), inspections of branch offices are required at least annually for supervisory branches and OSJ; at least every three years for non-supervisory branches; and, when required, for non-branch locations. Each office inspection produces a written report typically kept on file for a minimum of three years.

The written report must include all required internal review activity as well as testing and verification of our policies and procedures, including supervisory policies and procedures in the areas of:

- Safeguarding customer funds and securities;
- Maintaining books and records;Supervision of supervisory personnel;
- Transmittals of funds (e.g., wires or checks, etc.) or securities from customers to third party accounts; 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; and
- Validating customer address changes and customer account information.

If we do not engage in any of these activities, we must indicate so in the report and attest that supervisory policies and procedures will be in place before we begin engaging in these activities.

In each inspection we must:

A. have procedures to prevent conflicts of interest including, but not limited to, economic, commercial, or financial interests in the associated persons and businesses being inspected; and
B. ensure that the person conducting an inspection is not an associated person assigned to the location or is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to the location.

If a member determines that compliance with paragraph (c)(3)(B) is not possible because of a member's size or its business model, the member must document in the inspection report both the factors the member used to make its determination and how the inspection otherwise complies with paragraph (c)(1).

On November 6, 2020, FINRA filed a proposed rule change to adopt temporary Supplementary Material .17 (Temporary Relief to Allow Remote Inspections for Calendar Year 2020 and Calendar Year 2021)

under FINRA Rule 3110 (Supervision) to provide member firms the option to complete remotely their calendar year 2020 and calendar year 2021 inspection obligations under FINRA Rule 3110(c) (Internal Inspections), without an on-site visit to the office or location.

Procedures and Documentation

The review will result in a report given to Lori Alberts and other appropriate principals. Lori Alberts will follow-up on the report's suggested corrective and remedial actions; determine whether to accelerate a branch's next review date; or take any other proactive compliance measures.

Our firm will conduct calendar year 2020 and calendar year 2021 inspections remotely. Lori Alberts will ensure that we have reasonably designed procedures for conducting remote inspections of offices or locations, including:

- a description of the methodology, including technologies permitted by our firm, that may be used to conduct remote inspections; and
- the use of other risk-based systems employed generally by our firm to identify and prioritize for review those areas that pose the greatest risk of potential violations of applicable securities laws and regulations, and of applicable FINRA rules.

Our CCO will maintain and preserve a centralized record for each of calendar year 2020 and calendar year 2021 that separately identifies:

- all offices or locations that had inspections that were conducted remotely; and
- any offices or locations for which our firm determined to impose additional supervisory procedures or more frequent monitoring.

Designation of Key Personnel

Chief Compliance Officer: Lori Alberts

The CCO:

- is responsible for establishing, maintaining, and enforcing the company's Supervisory Control System;
- is responsible for ensuring that the firm meets all requirements under Rule 3130 and accompanying Interpretive Material IM-3130;
- ensures that the compliance and supervisory procedures are up-to-date, effective, and followed by all personnel; and
- implements a system for testing the Supervisory System and making any necessary changes.

An individual designated as CCO on Schedule A of Form BD of a member firm, other than a firm engaged in limited investment banking or securities business, is required to register as a Compliance Officer. An individual designated as a CCO on Schedule A of Form BD of a firm that is engaged in limited investment banking or securities business may be registered in a principal category that corresponds to the limited scope of the firm's business, rather than register as a Compliance Officer.

Required CCO Activities

The Lori Alberts will perform the following activities:

- Prepare an annual 3120 Report, submitted to Senior Management, describing:
    - The firm's system of supervisory controls;
    - Summary of all test results;
    - Significant exceptions; and
    - Additional or amended supervisory procedures created in response to test results
    - Distribute the Report and maintain a list of recipients, including:

      (x) Board of Directors

      (x) CEO/President

      (x) FINOP

- Retain any comments received in response to Report dissemination;
- Document the review and findings of our Customer Address Change WSP;
- Document the review and findings of our Changes to Customer Investment Objectives;
- Document the procedures in place to ensure enforcement of our supervisory control system;
- Maintain a list of producing managers OR indicate in the files that, as of a certain date, we have no producing managers;
- Maintain a list of producing managers who fall under the 20%+ threshold, requiring heightened supervision, OR indicating in the files that, as of a certain date, we have no producing mangers who fall under the 20%+ threshold;
- Describe how heightened supervision will be accomplished;
- Maintain a list of individuals that are "senior to" or "otherwise independent" of producing managers;
- Proof of annual filing with FINRA of limited size and resource exception, if applicable;
- Document the annual review of our Supervisory Control System;
- Maintain documentation for the following:

  (a) Establish a plan to test each business activity to ensure that they are being undertaken in compliance with our WSP; (b) Develop a prioritized testing plan based on the results of an internal risk assessment; (c) Test and verify required WSP sections;(d) Enhance and amend our WSP as appropriate due to deficiencies or weaknesses found during testing and verification efforts; (e) At least annually, prepare and submit to appropriate Senior Management a "3120 Report" detailing our system of supervisory controls, a summary of all test results, identification of any significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

- Document all WSP testing, including the following, where applicable:

(a) All transmittals of funds (i.e., wires, checks, etc.) or securities from customers to third-party accounts that would result in a change of beneficial ownership; (b) All transmittals of funds or securities from customer accounts to locations other than the customer's primary residence (i.e., post office box, "in care of" addresses or accounts, alternate addresses, etc.; (c) All transmittals of customer funds or securities between customers and registered representatives, including the hand-delivery of checks; (d) Change of customer address; and (e) Change of customer investment objectives.

Executive Representative: Jai Ramachandran

The FINRA By-Laws, Article IV, Section 3, require that each member designate a registered principal as "FINRA executive representative," to represent, vote, and act for the member in all FINRA affairs and to receive and distribute official FINRA notifications. We will update the Executive Representative's contact information through FINRA's Contact System and in applicable areas in the Central Registration Depository ("CRD"), including Firm Notifications.

Financial and Operations Principal: Jared Kopp

The FINOP has overall responsibility for the financial control and reporting systems under Code of Conduct Rule 1022 (b) or (c) and the Securities Exchange Act of 1934 (Exchange Act), including:

- the accuracy of financial reports submitted to any duly established securities industry regulatory body; final preparation of such reports; individuals who assist in the preparation of such reports; individuals who are involved in the actual maintenance of the member's books and records; and
- individuals who are involved in the administration and maintenance of the member's back office operations; and any other matter involving the financial and operational management of the member.

FINRA Systems and Forms

Policy Requirements

In accordance with FINRA Rule 4517, the Company must report to FINRA all required contact information via the FINRA Firm Gateway and update this information not later than 30 days following any changes. The CCO will ensure that the firm maintains current contact information on the Firm Gateway. We will respond to FINRA requests for information not later than 15 days following any such request or within a time frame specified by FINRA staff. The CCO or his designee conducts periodic spot checks of the Firm Gateway to verify that Company personnel are meeting these requirements.

We use FINRA's online systems and applications, including CRD, eFOCUS, Report Center, Regulation Filings, and WebIR (among others). The Company has appointed a supervisor (NAME) who has the authority to grant or deny entitlements to account administrators and users.

Electronic Filing Requirements

Using FINRA's regulatory notice templates, our FINOP must ensure that the following notices are filed electronically with FINRA:

- Withdrawals of Equity Capital - Exchange Act Rule 15c3-1(e);
- Special Reserve Bank Account - Exchange Act Rule 15c3-3(i);
- Replacement of Accountant - Exchange Act Rule 17a-5(f)(4);
- Net Capital Deficiency - Exchange Act Rule 17a-11(b);
- Aggregate Indebtedness in Excess of 1200 Percent of Net Capital - Exchange Act Rule 17a-11(c)(1);
- Net Capital Is Less Than 5 Percent of Aggregate Debit Items - Exchange Act Rule 17a-11(c)(2);
- Net Capital Is Less Than 120 Percent of Required Minimum Dollar Amount - Exchange Act Rule 17a-11(c)(3);
- Failure to Make and Keep Current Books and Records - Exchange Act Rule 17a-11(d); and
- Material Inadequacy in Accounting Systems, Internal Controls or Practices and Procedures - Exchange Act Rule 17a-11(e).

In addition, our FINOP must undertake or oversee the reconciliation and/or preparation, review and maintenance of the following:

- Liquid asset accounts;
- Trade activity reports/blotters;
- Error accounts; and
- Any other accounts prepared on our behalf by a clearing firm.

Any issues arising from the review of any of the above or any other areas of financial control and/or oversight will be immediately addressed and documented. Our FINOP, working with Senior Management and Compliance, is ultimately responsible for ensuring that all corrective measures are taken.

Form Custody

Our FINOP, working with our CCO and other appropriate Senior Staff, must ensure that Form Custody is filed, as required, along with our e-filed FOCUS Reports.

Our CCO will review each FOCUS filing to: (a) determine that a Form Custody was filed with the FOCUS Report; and (b) review the Form Custody to ensure it has been appropriately completed.

FINRA Contact System (FCS)

Policy Requirements

FINRA uses its FCS to deliver important communications and notices to the appropriate persons at member firms based on either their area of responsibility (advertising, training of reps, receipt of FINRA CE notices of inactive reps, compliance, technology, etc.) or designated title (CEO, CCO, FINOP, Executive Representative, AML Principal, BCP contacts, etc.)

Business Continuity Plan (BCP)

FINRA Rule 4370 requires members to designate two emergency contact persons on the FCS.

Executive Representative

Article IV, Section 3 of FINRA By-Laws requires that member firms appoint and certify to FINRA one Executive Representative to represent, vote, and act for the member firm in all affairs of FINRA. The Executive Representative must be:

- A member of Senior Management; and
- A registered principal.

Our appointed Executive Representative must maintain an Internet electronic (e-mail) account for communication with FINRA.

Procedures and Documentation

Lori Alberts must ensure that all information required to be disclosed on FINRA's internal systems (FCS and others, as applicable), on annual document review and all appropriate amendments, are made within 30-days of any change in designations.

Executive Representative Review/Updating

Our CCO will ensure that we comply with FINRA Rule 4517, which requires at least annual review of the FCS, changing our Executive Representative designation and contact information within 30-days of any changes.

BCP Review and Appropriate Updating

FINRA requires that an appropriately designated individual reviews the information currently on file about BCP emergency contact persons within 17-business days of each calendar year-end, making appropriate updates within 30-days of any changes.

Our CCO will ensure that annually, the appropriate individual has approved the FCS review and any appropriate updating and will maintain all appropriate proof of such in our files.

Lori Alberts and the appropriately designated individuals conducting the review will initial and date review documents.

FINRA Report Center

Policy Requirements

FINRA Report Center makes the following reports available:

- 4530 Disclosure Timeliness Report Card;
- Equity Report Cards;

    - Firm Summary Scorecard;
    - OATS Compliance Monthly Report Card;
    - Best Execution Report Card;
    - Market Order Timeliness Report Card;
    - Short Sale Bid Test Report Card;
    - Executing Firm Trade Reporting Report Card;
    - Reporting Firm Trade Reporting Report Card;
    - Firm Quote Compliance Report Card;
    - Executing Firm NMC Compliance Report Card (formerly ACT Compliance Report Card);
    - Reporting Firm NMC Compliance Report Card (formerly ACT Compliance Report Card);
- MSRB G-32 Compliance Report Card;
- Risk-Monitoring Reports, including statistics on the number of representatives with customer complaint disclosures and prior employment at a disciplined firm;
- Trace Quality of Markets Report Card;
- WebCRD Late-Filing-Fee Report; and
- Webcast Usage Report.

Procedures and Documentation

Our CCO ensures that the appropriate entitlement forms have been filed with FINRA; the account administrator for FINRA Report Center obtains all appropriate reports; and that the reports are used in our ongoing compliance efforts.

At least annually, our CCO will review all entitlement forms to determine whether changes are required in the information made accessible to the account administrator.

Form BD

Procedures and Documentation

Our CCO ensures that any material changes to Form BD are filed via Form BD amendments on WebCRD and provided to applicable state jurisdictions within 30 days of the change.

An individual designated as Chief Compliance Officer on Schedule A of Form BD of a member firm, other than a firm engaged in limited investment banking or securities business, is required to register as a Compliance Officer. An individual designated as a CCO on Schedule A of Form BD of a firm that is engaged in limited investment banking or securities business may be registered in a principal category that corresponds to the limited scope of the firm's business, rather than register as a Compliance Officer.

Individuals can qualify for registration as Compliance Officers in several ways. An individual who is designated as CCO on Schedule A of Form BD of a member firm and who is registered with FINRA as a General Securities Representative and a General Securities Principal prior to October 1, 2018, and who continues to maintain the CCO designation and the General Securities Representative and General Securities Principal registrations on October 1, 2018, will automatically be granted Compliance Officer

registration on October 1, 2018. Further, other individuals who are registered with FINRA as a General Securities Representative and a General Securities Principal prior to October 1, 2018, and who continue to maintain those registrations on or after October 1, 2018, are qualified to register as Compliance Officers without having to take any additional examinations. Similarly, an individual who is registered as a Compliance Officer in the CRD system prior to October 1, 2018, and who continues to maintain that registration on or after October 1, 2018, is qualified to register as a Compliance Officer without having to take any additional examinations.

In addition, individuals whose registrations as General Securities Representatives and General Securities Principals, or whose registrations as Compliance Officers were terminated between October 1, 2016, and September 30, 2018, are qualified to register as Compliance Officers without having to take any additional examinations, provided they register as a Compliance Officer within two years from the date of terminating those registrations.

All other individuals registering as Compliance Officers on or after October 1, 2018, are required to: (1) satisfy the General Securities Representative prerequisite registration, including pass the SIE, and pass the General Securities Principal (Series 24) qualification examination; or (2) pass the Compliance Officer (Series 14) qualification examination.

At least annually, the designated principal will receive a copy of appropriate document(s) indicating any changes of officers, directors, shareholders, partners, managers, etc. Form BD Schedules A & B disclosures must match all corporate or other organizational documents.

Other changes in control or our business mix will be appropriately reflected on Form BD when our Continuing Membership Application has been approved by FINRA.

All Form BD amendments will be made on WebCRD, printed out, appropriately signed, and maintained. Annually organizational documents will be placed in the Form BD file, with the designated principal's initials on the documents indicating that they match the Form BD disclosure or that appropriate amendments have been made. Our CCO must also ensure compliance with Exchange Act Rule 17a-4(d) that require copies of our Form BD and all amendments to be retained for the life of this broker-dealer.

Regulation Form Filing

Policy Requirements

The following individuals are responsible for regulation form filings:

- **Customer Complaints - FINRA Rule 4530 – Designated Principal: CCO**

  File quarterly information on customer complaints on the 15th calendar day following the end of each quarter. In addition, certain events must also be filed.

- **Web-Based FOCUS - Designated Principal: FINOP**

Compose and submit Financial and Operational Combined Uniform (FOCUS) Reports to FINRA as required under Exchange Act Rule 17a-5.

- **Regulation T & Rule 15c3-3 Extension Requests - Designated Principal: FINOP**

  The Federal Reserve Board's Regulation T and SEC Exchange Act Rule 15c3-3 provide for the possibility of extensions where investors have not met their obligations for a securities transaction. Regulation T gives an investor a maximum of five business days to pay for securities purchased in a cash or margin account. If the payment due exceeds $1,000 and is not received by the end of the time period, a broker-dealer must either liquidate the position or apply for, and receive, an extension under the following conditions:

  1. any sale by any person, for an account in which (s)he has an interest, if the person owns the security sold and intends to deliver the security as soon as is possible without undue inconvenience or expense; and
  2. any sale by an underwriter, or any member of a syndicate or group participating in the distribution of a security, in connection with an over-allotment of securities, or any lay-off sale by such a person in connection with a distribution of securities through rights or a standby underwriting commitment.

- **INSITE Firm Data Filing - Designated Principal: CCO**

  Carrying firms are required to electronically report certain data on behalf of its correspondent clients and all self-clearing firms must report the data on their own businesses.

- **Blue Sheets - FINRA Rules 8210, 8211 and 8213 - Designated Principal: Operations; CCO**

  Broker-dealers must electronically submit, upon request, information concerning customer and proprietary transactions via the EBS (Electronic Blue Sheet) system in a format specified by the broker-dealer's designated SRO under Rule 17d-1 of the Exchange Act, and keep current information for the firm's Blue Sheet contact individual via email to bluesheets@finra.org.

Procedures and Documentation

Each specifically designated principal will retain filing documentation.

The name, title, address, telephone number, fax number and email address for the designated primary and secondary contacts must be provided for all filings.

The account administrator provides current information for all appropriate contact fields on WebCRD; we will print the screen and maintain this documentation in our files.

Quarterly, CCO will review, initial and date these files and all filings to ensure that we have made timely and appropriate filings.

Web CRD: Email Notifications

Policy Requirements

Lori Alberts ensures that we maintain an email connection with WebCRD enabling us to receive emails about the following:

1. Our financial account at WebCRD becomes funds deficient;
2. An associated individual has his/her temporary registration withdrawn by a regulator;
3. A registered individual becomes CE inactive;
4. A registered individual is within 90-days of the end of his/her required regulatory element 120-day window; and
5. An "Outstanding Disclosure Letter" exists for an associated individual.

Procedures and Documentation

It is the designated principal's responsibility to ensure that all received emails are appropriately addressed in a timely manner.

Quarterly, the designated principal will review all emails received from WebCRD and all actions taken regarding each, maintaining documents and evidencing such review by initials and dates.

Web CRD: Monitoring Searches

Policy Requirements

Our CCO must ensure that we receive written permission from the individual on whom we are performing a search prior to any information being accessed on WebCRD.

Procedures and Documentation

The individual in charge of Licensing and Registration must ensure that only authorized individuals have the username and password to access WebCRD.

For every potential and actual hire, our CCO or a specifically designated individual will review Form U4 and personnel files to determine that written authorization was received.

Outsourcing Activities to Third-Party Service Providers

Policy Requirements

Notice to Members 05-48 was issued *"to remind broker-dealers that, in general, any parties conducting activities or functions that require registration under FINRA rules will be considered associated persons of the broker-dealer, if the service provider is not itself registered as a broker-dealer and the outsourcing functions are known to FINRA (such as in the case of clearing arrangements)."*

Procedures and Documentation

The Controller will:

- Ensure that the WSP conveys the identity and responsibilities of each third-party, and maintain all third-party outsourcing contracts and/or agreements in our files;
- Ensure that we perform and document a due diligence review of any third-party vendors;
- Ensure that we have appropriate procedures in place to oversee, and where appropriate, supervise and monitor the service provider's performance of covered activities;
- Ensure that our agreements with third-party vendors specify that FINRA and other regulatory bodies have complete access to their work product, as if the covered activities were actually performed directly by us;
- Annually review and document all our outsourcing arrangements to determine whether they continue to be appropriate based on their performance; and
- Ensure that any third-party systems or other outsourcing support have mechanisms that can be easily and rapidly updated or amended to reflect new or altered regulatory rules and requirements.

Supervisory Control System

FINRA Rule 3120 requires that we designate one or more principals who will establish, maintain, and enforce a system of supervisory control policies and procedures that test and verify that our supervisory control procedures are reasonably designed to comply with applicable securities laws and FINRA rules and create additional or amend supervisory procedures where the need is identified by such testing and verification. Lori Alberts at least annually will ensure that we conduct and document a test of our procedures.

Annual Compliance Meeting

Policy Requirements

FINRA Rule 3110(a)(7) requires that Brighton Securities Corp hold a compliance meeting at least annually. This meeting serves several functions:

- a thorough review of our business and methods of operation, and all related compliance issues;
- an opportunity for each attending individual to ask questions concerning compliance requirements; and
- a centralized forum for dissemination of recent regulatory developments, firm policies and any related information.

Procedures and Documentation

Lori Alberts will ensure that a compliance meeting is held and each registered employee of this firm must attend.

Compliance will conduct the annual compliance meetings and maintain appropriate documentation to evidence compliance.

The meetings will also discuss products (i.e., suitability, tax implications, liquidity, market impact, required disclosures, etc.) and the Bank Secrecy Act (BSA) FORM SAR-SF: Suspicious activities beyond money laundering and terrorist financing.

At each annual compliance meeting, all registered employees will be required to attest to the following:

- any changes to their Form U4 (i.e., address change, new disclosures, name change, etc.);
- disclosure of all approved outside business activities;
- disclosure of any previously undisclosed outside business activities, requiring pre-approval;
- disclosure of all previously disclosed outside brokerage accounts at other broker-dealers;
- disclosure of any previously undisclosed outside brokerage accounts at other broker-dealers requiring pre-approval;
- disclosure of any outside investment advisory activities;
- disclosure of any existing loans between the registered individual and a customer.

Compliance will maintain documentation of all such attestations with the respective individual's signature and the date.

Lori Alberts will also maintain documentation of each year's Annual Compliance Meeting in our files including:

- names and CRD #s of each attendee;
- copies of all distributed materials;
- brief written description of what was covered during the meeting;
- copies of any agendas;
- names and CRD #s of registered individuals addressing the meeting;
- names, titles, affiliations and qualifications of any outside speakers;
- indications of any concerns resulting from the meeting, either in terms of questions raised by attendees or areas viewed by the presenters or attendees as requiring additional training;
- notes concerning any follow-up activities taken due to issues raised during the meeting;
- documentation concerning any individual who failed to attend a scheduled make-up session and notations regarding any corrective action required.

Electronic Conferencing of Meetings

FINRA Rule 3110 states that we may hold the required Annual Compliance Meeting via video conference, interactive classroom setting or other electronic means.

Lori Alberts will maintain records for electronic Annual Compliance Meetings that include

- a log of all representatives who attended the meeting;
- the time and place of the conference for each representative;
- the means through which the conference was conducted;
- the identity of the person(s) conducting the conference;
- the substantive areas covered during the conference; and
- how conference attendance was proctored.

Designation of Supervising Principal

Policy Requirements

FINRA Rule 3110 requires that each registered employee is assigned to *"an appropriately registered representative(s) or principal(s) who shall be responsible for supervising that person's activities."*

While Rule 3110 does not specifically require that the supervising individual is a registered principal, wherever possible, we will assign supervisory responsibilities only to individuals with an appropriate principal's license.

A designated supervising principal is the supervisor of the individuals assigned to them. Each registered individual is told to bring compliance concerns to that specific individual, or directly to Lori Alberts.

Throughout these WSPs, the phrase "designated supervisory principals" is utilized to indicate the person who has certain supervisory and oversight responsibilities. When this term is used rather than indicating a specifically designated supervising principal -- i.e., the CCO, Advertising Principal, FINOP, etc. -- it means that all designated supervisory principals have the responsibilities indicated.

Procedures and Documentation

- Lori Alberts must ensure that we have enough supervising principals to adequately oversee and review the activities of all our registered personnel; and
- each designated supervising principal:
    - is fully aware of the responsibilities and requirements they have been given;
    - has been deemed sufficiently qualified to carry out his/her responsibilities;
    - has received sufficient training regarding his/her responsibilities; and
    - carries out the responsibilities with which he/she has been charged.

Qualifications of Supervising Principals

Lori Alberts determines the qualifications for designated supervising principal, including their knowledge and understanding of the firm's regulatory requirements and appropriate products and/or services. The following additional areas may be considered:

- experience;
- previous experience as a designated supervisory principal;
- discussions with previous employers;
- exam qualifications;
- complaint history with this and other firms;
- level of activities in which the individual is engaged; and
- discussions with others within the firm to determine the individual's level of commitment and responsibility.

Lori Alberts maintains documentation of reviews and assessments of all designated supervising principals including the initials of those who undertook each review area, dates and findings.

Lori Alberts must ensure and document that our Continuing Education ("CE") Training Plan takes into consideration the education needs of all designated supervising principals. The CCO will document this information in files maintained for our annual review of our CE Needs Analysis and Training Plan.

Lori Alberts will ensure that we have procedures which prohibit our supervisory personnel from:

1. supervising their own activities; and
2. reporting to, or having their compensation or continued employment determined by, a person the supervisor is supervising. FINRA Rule 3110(b)(6) addresses potential abuses in connection with the supervision of all supervisory personnel.

Statutorily Disqualified Individual

Under current policy we will not consider hiring a statutorily disqualified individual. Should Senior Management and Compliance agree on a case-by-case basis to override that policy, we will develop stringent supervisory methods for these people, and ensure that such individual's designated supervising principal is uniquely qualified.

Limited Exception

FINRA Rule 3110(b)(6) provides an exception for a firm that determines that compliance with either of the prohibitions outlined above is not possible because of the firm's size or a supervisory person's position within the firm, documenting the factors used to reach this determination and how the supervisory arrangement otherwise complies with FINRA Rule 3110(a).

FINRA Rule 3110.10 (Supervision of Supervisory Personnel) reflects FINRA's expectation that this exception will be used primarily by a sole proprietor in a single person firm or where a supervisor holds a very senior executive position within the firm.

Risk-Based Reviews of Transactions

Transaction Reviews

FINRA Rule 3110(b)(2) (Review of Member's Investment Banking and Securities Business) requires a firm to have supervisory procedures for the review of all investment banking and securities business. FINRA Rule 3110.05 (Risk-based Review of Member's Investment Banking and Securities Business) permits a firm to use a risk-based system to review transactions.

A firm using risk based methodology is not required to conduct detailed reviews of each transaction if the methodology used by the firm enables the firm to focus on the areas that pose the greatest risks of violation.

Correspondence and Internal Communications Review

Firms using the risk-based methodology must ensure:

- the education and training of associated persons on procedures governing correspondence and internal communications;
- the documentation of such education and training; and
- surveillance and follow-up to ensure that such procedures are implemented and followed.

Evidence of Review

FINRA Rule 3110.07 (Evidence of Review of Correspondence and Internal Communications) states that a firm must identify what communication was reviewed, the identity of the reviewer, the date of review, and the actions taken due to any regulatory issues.

Procedures and Documentation

Lori Alberts, working with Senior Management, is responsible for developing and distributing risk-based review procedures.

At least annually, all risk-based review procedures will be reviewed to ensure they are still appropriate.

Supervising Principals

Supervising Principals

We have designated supervising principals who have firm-wide responsibility ensuring compliance in specific business areas. Senior Management and Lori Alberts will ensure that all designated supervisors (a) are fully aware of their responsibilities and requirements, (b) suitably qualified to carry out their responsibilities, (c) have received sufficient training to undertake their responsibilities, and (d) are, in fact, carrying out the responsibilities with which they have been charged.

BUSINESS AREA	SUPERVISOR NAME and TITLE	BEGINNING DATE	LOCATION
Advertising Review	Lori Alberts	12/2018	Rochester OSJ
AML Program	Lori Alberts	12/2018	Rochester OSJ
Arbitration	Lori Alberts	12/2018	Rochester OSJ
Branch Audits / Reviews	Lori Alberts	12/2018	Rochester OSJ
Business Continuity Plan	Jai Ramachandran (CEO)/ Joe Sweeney (CIO)/ Lori Alberts (CCO)	9/2015 (CEO) 3/2018 (CIO) 12/2018 (CCO)	Rochester OSJ
Change in Control / Business Ops	Lori Alberts	12/2018	Rochester OSJ
Complaint Filing	Lori Alberts	12/2018	Rochester OSJ
Continuing Education	Lori Alberts	12/2018	Rochester OSJ
Firm Element	Lori Alberts	12/2018	Rochester OSJ
Regulatory Element	Lori Alberts	12/2018	Rochester OSJ

Designated Executive Representative	Jai Ramachandran	9/2015	Rochester OSJ
Designation of Supervisory Principals	Lori Alberts	12/2018	Rochester OSJ
Financial Books and Records	Jared Kopp	6/2017	Rochester OSJ
Financial Filings	Jared Kopp	6/2017	Rochester OSJ
Form Filings (FINRA) – as applicable:			Rochester OSJ
Complaints	Lori Alberts	12/2018	Rochester OSJ
FOCUS	Jared Kopp	6/2017	Rochester OSJ
Reg T	Jared Kopp	6/2017	Rochester OSJ
Short Interest Reporting	Lori Alberts	12/2018	Rochester OSJ
Blue Sheets	Lori Alberts	12/2018	Rochester OSJ
Insite	Lori Alberts	12/2018	Rochester OSJ
Internal Audits / Reviews	Lori Alberts	12/2018	Rochester OSJ
Insider Trading Safeguards	Lori Alberts	12/2018	Rochester OSJ
Licensing and Registration	Lori Alberts	12/2018	Rochester OSJ
Municipals	Lori Alberts	12/2018	Rochester OSJ
Options	Lori Alberts	12/2018	Rochester OSJ
Private Placements	Lori Alberts	12/2018	Rochester OSJ
Variable Annuities	Lori Alberts	12/2018	Rochester OSJ
Pre-Hire Requirements	Lori Alberts	12/2018	Rochester OSJ
Privacy (Reg S-P)	Lori Alberts	12/2018	Rochester OSJ
Product Approval	Lori Alberts	12/2018	Rochester OSJ
Regulatory Payments	Jared Kopp	6/2017	Rochester OSJ
Regulatory Report Retention	Lori Alberts	12/2018	Rochester OSJ
Research	Lori Alberts	12/2018	Rochester OSJ
Risk Management	Jai Ramachandran	9/2015	Rochester OSJ
Safekeeping / Segregation of Securities	Jared Kopp	6/2017	Rochester OSJ
Supervisory Structure Review	Lori Alberts	12/2018	Rochester OSJ
Trade Reporting	Lori Alberts	12/2018	Rochester OSJ
Training of Personnel	Danielle Wilkins	11/2010	Rochester OSJ
WSP Review and Amending	Lori Alberts	12/2018	Rochester OSJ
Amended WSP Dissemination	Lori Alberts	12/2018	Rochester OSJ

Test and Verify Procedures

1. Lori Alberts, working with Senior Management, will establish, maintain, and enforce procedures to test and verify that our supervisory procedures are reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules.

Annual Report: Further, a designated principal(s) must submit to our Senior Management, at least annually, a report detailing our system of supervisory controls, the summary of the test results, and significant identified exceptions. The COO and Management will then create additional or amend existing supervisory procedures identified by such testing and verification.

$200 MILLION OR MORE IN GROSS REVENUES

Annual reports provided to senior management in a calendar year following a calendar year in which we reported $200 million or more in gross revenue must include, to the extent applicable to our business:

1. a tabulation of the reports of customer complaints and internal investigations made to FINRA during the preceding year; and
2. discussion of the preceding year's compliance efforts, including procedures and educational programs, in each of the following areas:
    A. trading and market activities;
    B. investment banking activities;
    C. antifraud and sales practices;
    D. finance and operations;
    E. supervision; and
    F. anti-money laundering.

Gross Revenue is defined as:

1. total revenue as reported on FOCUS Form Part II or IIA (line item 4030) less commodities revenue (line item 3990); or
2. total revenue as reported on FOCUS Form Part II CSE (line item 4030) less (A) commissions on commodity transactions (line item 3991); and (B) commodities gains or losses (line items 3924 and 3904).

Finance and Operations

Books and Records

Maintenance of Books and Records

Procedures and Documentation

Our FINOP and other principals have specific recordkeeping responsibilities. Our CCO must ensure that all required books and records are maintained in an appropriate manner for an appropriate length of time, and that they are adequately safeguarded; other supervisory personnel are responsible for ongoing oversight and maintenance of appropriate books.

Our designated supervising principals must monitor and review required books and records to ascertain that they are being adequately maintained.

Books, records and accounts concerning all securities transactions and related activities undertaken by this firm must be maintained in clear, full detail; must accurately reflect all transactions and all activities; must contain clear evidence of who was responsible for reviewing and/or approving the records; and must be kept for the appropriate amount of time as specified in Exchange Rule 17a-4.

At least annually, our CCO will review and document all recordkeeping requirements of all areas and individuals responsible for maintaining the appropriate records. Our CCO will then determine if our internal policies and procedures and/or training efforts should be enhanced.

Customer Account Records

Customer account records, which must be maintained for a period of six years, must include the following information:

- Client holdings;
- Cross-reference lists;
- Copies of order tickets/applications/subscription documents;
- If applicable, research files on stock and/or bond recommendations;
- Correspondence, incoming and outgoing, including faxes, e-mails, and instant messages;
- New-account forms;
- AML customer identification program information; and
- Other materials required to justify or clarify actions taken on behalf of a client.

Electronic Notification Filing Requirement

Our FINOP and CCO must ensure, under FINRA Rule 4517 and Exchange Act Rule 17a-11(d) and (e), that any discovered material inadequacy in accounting systems, internal controls, or practices and procedures and/or failure to make and keep current books and records are filed electronically via FINRA's website using appropriate templates and/or language, as required.

Archiving Compliance Supervisory and Procedures Manuals

Policy Requirement

Exchange Act Rule 17a-4 requires that firms maintain each compliance, supervisory and procedures manual which describes our policies and practices for compliance with applicable laws and rules and supervision of the activities of associated persons. Our CCO ensures that we adhere to the requirements of Exchange Act Rule 17a-4.

Material Changes: Each time a material change is made to any manual, we must archive the previous manual, indicating the dates during which it was utilized.

Maintenance Requirement: We must maintain each archived document for three years following the termination of its use.

Distribution of New Policies and Procedures: The Compliance Department must be immediately notified each time a manual has been archived to ensure that only the most current documents are being utilized by registered associates.

Procedures and Documentation

- All Regulatory Notices, Notices to Members and other communications, as well as SEC and other applicable regulatory rule changes and appropriate federal laws and statutes will be reviewed at least quarterly to determine if changes are required in any of our manuals, including these WSPs.
- As needed, but no less than quarterly, additions, amendments, deletions, and enhancements will be made to all relevant manuals.
- We will maintain lists of individuals to whom revised manuals were distributed, including dates of distribution.
- Acknowledgement of receipt is required and maintained.
- We will maintain documentation evidencing that our branch office(s) and internal inspections verify that only the most current versions of compliance, supervisory or procedures manuals are in use.

Regulatory Report Retention

Our CCO must ensure that we comply with the portion of Exchange Act Rule 17a-3, regarding books and records, that requires us to retain each examination report and all reports that any SRO requests or mandates we maintain, for a period of three years after the date of the request or date of the report.

Our CCO will retain all such requested or required reports, indicating the dates of each report, for a period of three years after the request date or the report date.

Annually, our CCO will review the files with Senior Management and other appropriate individuals to ensure that no reports have been omitted.

Electronic Books and Records Maintenance

Policy Requirements

Our CCO works with outside vendors and appropriate internal IT staff, as necessary, to ensure that we adhere to all requirements of Exchange Act Rule 17a-4(f) regarding the electronic storage of broker-dealer books and records.

Broker-dealers utilizing optical disk technology to maintain any, or all, of their books and records are required to notify FINRA.

Broker-dealers relying on technology other than optical disk technology must notify FINRA 90-days PRIOR to implementing this system.

Broker-dealers who use electronic storage media must have at least one third-party who has access to, and is able to, download information from the broker-dealers' electronic storage media to any acceptable medium under SEC rules, and to file an undertaking with FINRA, on behalf of the broker-dealer.

Procedures and Documentation

Our CCO and other appropriate principals will:

- Develop appropriate internal systems or select a vendor(s) that meets the rule requirements;
- Notify FINRA, and other appropriate Designated Examining Authorities, in a timely manner when initiating electronic storage, and providing third-party representation, if applicable;
- Ensure procedures for providing revised notifications to FINRA, as necessary;
- Obtain written Senior Management approval of system configuration (i.e., in-house or third-party vendor) to store records;
- Create and retain a list of the exact books and records that are maintained electronically, updating as required;
- Issue passwords to authorized personnel;
- Ensure procedures for disabling passwords for terminated employees or for those who no longer require access;
- Review at least monthly to ensure corrective measures are taken internally, or with outside vendor, if deficiencies become apparent;
- Establish audit system for accountability regarding the input of records into the system (i.e., software writing from system to disk);
- Ensure that the electronic storage media meet the following conditions:
    - Non-rewritable, non-erasable formatted disks;
    - Automatic verification of the quality and accuracy of the recording process (i.e., after writing to a disk, reading back to determine that what was written was accurately reproduced, also known as cyclical redundancy check or CRC);
    - Serializing (i.e., labeling and numbering of disks) for the original and duplicate units;
    - Time-dating the disks for required retention period; and

    - Capacity to readily access indexes and records to clearly indicate what is stored on each disk and to deliver such materials from each disk upon request by regulators.
- Ability to immediately retrieve easily readable production of records;
- Ability to provide facsimile enlargements if using microfiche;
- Separate storage for copies and originals;
- Accurate organization and indexing;
- Retain documentation containing current information necessary to access records and indexes;
- Contract with independent third-party with access and the ability to download records (only required if both copies of any records are stored electronically and no paper copy exists);
- Semi-annually ensure that the system is internally audited to ensure the integrity of the electronically retained records;
- Establish a schedule of record retention that identifies the specific records that are maintained and the required time frame for each; and
- Ensure the establishment of a method for producing required records at outside office locations upon the request of a regulator.

Our CCO will review all SRO notifications to ensure that we have made appropriate, compliant, and timely notifications and that new technology or different systems may NOT be utilized without prior discussion with and approval of the CCO.

Our CCO will maintain copies of all notifications made to FINRA by us and by any outside vendors. If at any time a vendor is not forthcoming with appropriate FINRA notification, it may be necessary to change vendors. Documentation will be made to the file concerning any such events.

We will document and maintain on file the compliance measures for each of the above requirements in detail.

Electronic Notification Required

Our CCO must ensure that any required Electronic Storage Media filings (pursuant to Exchange Act Rules 17a-4(f)(2)(i) and 17a-4(f)(3)(vii)) are made electronically using the appropriate template on FINRA's web site and according to FINRA requirements.

Business Continuity Plan

Policy Requirements

FINRA Rule 4370 requires that all FINRA broker-dealers create and maintain a Business Continuity Plan ("BCP"); FINRA Rule 4370 requires that emergency contact information regarding the BCP be provided to FINRA through the FINRA Contact System ("FCS") at https://firms.finra.org/asp).

Our obligations under Rule 4370 may be satisfied by a corporate-wide BCP if the plan addresses our specific situation, even if the affiliate or parent is not a FINRA member firm, in which case our CCO will review the company-wide plan and designate a principal to ensure that it meets all the requirements of Rule 4370. Responsibilities under Rule 4370 are a firm-wide compliance issue.

Designated Supervising Principal

A member of Senior Management, who is a registered principal, is responsible for approving our Business Continuity Plan ("BCP") and conducting the required review, including any proposed changes at least annually.

The individual designated is:

Name/CRD # Lori Alberts/2574827

Title CCO

The two emergency contact persons

The emergency contact information is submitted, and continually updated, through the FCS. This information includes two emergency persons -- a registered principal and a member of Senior Management -- whom FINRA may contact in the event of a significant business disruption. Notice to Members 04-37 outlines alternative measures, such as utilizing outside counsel, for instances in which a firm has only one principal or is a sole proprietorship.

(1) Name/CRD # Jai Ramachandran/5586706

Title CEO

(2) Name/CRD # (if applicable) Danielle Wilkins/4394359

Title CAO

In the event of material changes to our operations, structure, business or location, our CCO will ensure that we promptly update our emergency contact information.

At least annually, an appropriate designated individual will review the FCS system to ensure the information remains current. Any changes must be made within 30-days of a different individual designated as an emergency contact person.

To ensure its accessibility to regulators upon request, an electronic copy of our plan is located on our server. FINRA has arranged for EVault to provide this voluntary electronic repository service specifically designed for FINRA firms.

In reviewing our BCP, we must ensure that it addresses two potential types of significant business disruptions ("SBDs"), internal and external.

- Internal SBDs affect only our firm'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 (i.e., a clearing firm, an issuer, bank, etc.).

Ten Key Areas

At a minimum, our BCP must address the ten key areas listed below to the extent they are applicable and necessary, as well as any other key areas to ensure our BCP is complete and thorough based on our specific business and operations.

BCP must include a rationale for any of the following items that is not included. It is not sufficient to merely omit a specific required category.

For any area where we are relying upon the BCP of another entity, we must have access to that entity's BCP, or request that it prepare an Executive Summary of its BCP in terms of its relevance for our use in complying with Rule 4370. This Executive Summary would be an integral portion of our BCP.

1. Data backup and recovery, both hardcopy and electronic;
2. Mission-critical systems (defined in FINRA Rule 4370 as "*any system that is necessary, depending upon the nature of a broker/dealer'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 and the delivery of funds and securities.*");
3. Financial and operational assessments (i.e., written procedures to ensure our ability to identify changes in our operational, financial and credit-risk exposures). Operational risk focuses on a firm's ability to maintain communications with customers and to retrieve key activity records through our mission-critical systems. Financial and credit risk relate to a firm's ability to continue to generate revenue and to retain or obtain adequate financing and sufficient equity;
4. Critical business constituent, bank and counterparty impact;
5. Prompt access by customers to their funds and securities;
6. Alternate physical location of employees;
7. Alternate communications between the firm and customers;
8. Alternate communications between the firm and its employees;
9. Alternate communications between the firm and the regulators; and
10. Regulatory reporting.

Disclosure Requirements

Our BCP must include:

- A detailed description of our business;
- A listing of all business locations; and
- Dissemination of the plan and everyone's responsibilities.

Under Rule 4370, as part of the BCP, we are required to disclose certain portions of our BCP to customers along with a description of its distribution methods and indication that we will mail a copy of our BCP disclosure to customers upon request, and we may also put a summary on our website.

In addressing the events of varying scope, our summary must:

- Provide 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 citywide business disruption, and a regional disruption);
- For each scenario, state whether we plan to continue business and, if so, our planned recovery time;
- Provide general information on our intended response; and
- Disclose the existence of backup facilities and arrangements.

We do not need to disclose the following factors:

- The specific location of any backup facilities;
- Any proprietary information contained in the plan; and
- The parties with whom we have backup arrangements.

The summary may also include cautionary language indicating that the plan is subject to modification, that an updated summary will be promptly posted on our website and that customers may obtain updated summaries by requesting a written copy by mail.

Evidence of our BCP disclosure to customers is retained in the filings, indicating how disclosure was made, when it was made, and by whom.

Pandemic Response

Brighton Securities Corp's pandemic response policy, in conjunction with our Business Continuity Plan and Cybersecurity policies in the WSPs, recognizes the critical importance of safeguarding our employees and clients in the event of a national pandemic.

A member of Senior Management, who is a registered principal, is responsible for approving our Pandemic Response Plan and conducting the required review, including any proposed changes at least annually.

The individual designated is:

Name/CRD # Jai Ramachandran

Title CEO

Our Pandemic Response Plan addresses the key areas listed below to the extent they are applicable and necessary, as well as any other key areas to ensure our Plan is complete and thorough based on our specific business and operations:

Working from Home

- Organize and identify a central team of people or focal point to serve as a communication source so that our employees and clients can have accurate information during the crisis;
- Ensure that IT provides the correct technology and security measures for employees who are working from home, including:
    - telework arrangements and any weak points (and respective solutions);
    - connectivity issues due to the increased demand of bandwidth;
    - setting up VPNs for employees;
    - determining the costs and effort to set up secure, compatible systems;
    - providing any requisite software if an employee is using a personal computer; and
    - identifying backup systems and testing for e-mails, conference calls, and video conferencing
- Disseminate additional guidance and training regarding use of firm technology, tools and services in a remote work environment;
- Set clear expectations and show examples of what Brighton Securities Corp expects to be done task-wise, along with deadlines and calendar sharing;
- Create regular meetings for supervisors to discuss concerns and raise questions with compliance staff;
- Provide staff with updated contact information for their assigned points of contact in Compliance, Legal, Operations and other departments;
- Transition to virtual training to continue preparing for upcoming regulatory obligations;
- Set up work-from-home guidelines, such as emails must be responded to within 24 hours, use text for urgent matters, and no calls between certain hours to make sure teammates are not working around the clock;
- Arrange for meetings or conference calls to review the latest information, develop consistent messaging, and make decisions; and
- Brighton Securities Corp may need to request employees' personal contact information (phone numbers, e-mail addresses, or contact's information of where they may be if they are caring for family members).

Social Distancing

- Employees should avoid close contact with coworkers and clients (maintain a separation of at least 6 feet);
- Avoid shaking hands and always wash hands after contact with others;
- Encourage telephone use, videoconferencing, and the Internet to conduct business as much as possible, even when participants are in the same building;
- Minimize situations where groups of people are crowded together, such as in a meeting;
- If a face-to-face meeting is unavoidable, minimize the meeting time, choose a large meeting room, and sit at least 6 feet from one another;
- Reduce or eliminate unnecessary social interactions--reconsider all situations that permit or require employees, clients, and visitors to enter the workplace; and
- Avoid any unnecessary travel and cancel or postpone nonessential meetings, gatherings, workshops, and training sessions.

Personal Protective Equipment (PPE) and Office Cleanliness

- Stockpile items such as soap, tissue, hand sanitizer, cleaning supplies and recommended personal protective equipment. When stockpiling items, be aware of each product's shelf life and storage conditions (e.g., avoid areas that are damp or have temperature extremes) and incorporate product rotation (e.g., consume oldest supplies first) into your stockpile management program;
- Provide employees and clients in the workplace with easy access to infection control supplies, such as soap, hand sanitizers, personal protective equipment (such as gloves or surgical masks), tissues, and office cleaning supplies;
- Provide training, education, and informational material about employee health and safety, including proper hygiene practices and the use of any personal protective equipment to be used in the workplace;
- Provide clients and the public with tissues and trash receptacles, and with a place to wash or disinfect their hands;
- Regularly clean work surfaces, telephones, computer equipment, and other frequently touched surfaces and office equipment; and
- Discourage employees from using other employees' phones, desks, offices, or other work tools and equipment.

Sick Leave

- Consider flexible leave policies to allow workers to stay home to care for sick family members or for children if schools dismiss students or child care programs close;
- Allow employees to exhaust paid time off (PTO) hours and go into negative balances;
- Advance sick time up to a year of accrual;
- Provide a special time off allotment for the existing pandemic;
- Encourage sick employees to stay home; and
- Offer any existing vaccine at the workplace or allow employees to take time off to get the vaccine.

Change in Control or Business Operations

Policy Requirements

According to FINRA Rule 1017, a member shall file an application for approval of a change in ownership or control at least 30 days prior to such change.

Procedures and Documentation

- Our CCO will ensure that any of the changes outlined below result in a notification via FINRA's Gateway within 30 days. If any of the above are under discussion, the individual responsible for dealing with the FINRA District Office must be given sufficient time to make the appropriate FINRA filings.
- Our CCO, working with Senior Management and legal counsel, if appropriate, will request information on discussions that might be underway regarding:

- A merger of this broker-dealer with another FINRA member firm;
- An acquisition by this broker-dealer of another FINRA member firm;
- An acquisition of substantially all of our assets;
- A change in the equity ownership or partnership capital of this broker-dealer that would result in one person or entity owning or controlling 25 percent or more of the equity or partnership capital; or
- A material change in our business operations.

FINOP Duties and Responsibilities

Broker-Dealer Guarantees or Flow-Through Benefits

Procedures and Documentation

FINRA Rule 4150.03 prohibits us from entering into an arrangement on guarantees or flow-through benefits unless we have the authority to promptly make available the books and records of the other person/entity for inspection by FINRA in the United States. Also, the books and records of the other person/entity must be kept separately from those of the member. Our FINOP will ensure that such availability exists and will review at least annually to verify the availability continues as required.

Our FINOP and Senior Management will determine if prior written notice is required to be made to FINRA due to any plans for this broker-dealer to guarantee, endorse or assume, directly or indirectly, the obligations or liabilities of another person (including an entity).

Duties and Responsibilities

In accordance with FINRA Rule 4110, our FINOP will ensure that we adhere to the Rule's prohibition against withdrawing equity capital for a period of one year from the date it was contributed, unless otherwise permitted by FINRA in writing.

A carrying or clearing member shall not, without the prior written approval of FINRA, withdraw capital, pay a dividend or effect a similar distribution that would reduce such member's equity, or make any unsecured advance or loan to a stockholder, partner, sole proprietor, employee or affiliate, where such withdrawals, payments, reductions, advances or loans in the aggregate, in any 35 rolling calendar day period, on a net basis, exceeds 10% of its excess net capital.

Our FINOP is responsible for the following, as applicable to the business and financial requirements of this broker-dealer.

- Final preparation, approval, and responsibility for the accuracy of financial reports submitted on behalf of this firm (i.e., trial balances, income/expense statements, net capital computations, monthly or quarterly FOCUS reports, as required, etc.);
- Final preparation of any Supplemental Statements of Income ("SSOI") required by FINRA under FINRA Rule 4524;

- Supervision of and overall responsibility for all individuals assisting in the preparation of financial documents and in the maintenance of the books and records used for our financial reports and net capital computations;
- Supervision and oversight of all matters relating to this firm's financial and net capital computations, including, but not limited to the following:
    1. Ensuring that we deposit additional net capital funds when necessary;
    2. Ensuring that we maintain a fidelity bond in an appropriate amount to match our net capital requirement and review the adequacy of that coverage at least annually;
    3. Ensuring that we maintain all books and records (i.e., general ledgers, trial balances, etc.) on a current basis;
    4. Quarterly will review our "Checks Received/Disbursed" and "Securities Received/Disbursed" logs to ensure an absence of activities that could jeopardize our Exchange Act Rule 15c3-3 exemption or place us in net capital violation;
    5. Establishing procedures to ensure that all books and records will be maintained in a readily accessible place for two years and then kept for either three or six years as required in Exchange Act Rule 17a-4;
    6. Ensuring that an extension request is filed at least three business days prior to filing date if a monthly or quarterly FOCUS filing will not be made by the required deadline.

Reconciliation of Accounts

The FINOP will be responsible for preparing monthly reconciliations of all assets and liability accounts %. All bank accounts will be reconciled to the applicable bank statement and approved by the FINOP monthly by initialing the reconciliation.

Deficits in Introduced Accounts

FINRA, in its NASD Notice to Members 05-38 reads as follows:

"Deficits in unsecured and partly secured introduced accounts shall be deducted by the carrying broker-dealer and the introducing broker-dealer when the clearing agreement states that such deficits are the liability of the introducing broker-dealer. The amount is deductible by the carrying broker-dealer upon occurrence after application of timely calls for margin, marks to market, or other required deposits which are not outstanding for more than five business days unless there is reason to believe payment will not be made. The introducing broker-dealer must deduct the charge on the day after it becomes a charge to the carrying broker and the carrying broker-dealer must advise the introducing broker-dealer in writing on a daily basis of all such deficits to be charged."

The NASD Notice to Members states that *"the Interpretation does not permit a clearing firm to delay 'passing on the deficit,' nor does it permit an introducing firm to postpone taking a capital charge for deficits in introduced accounts."*

Our FINOP must review our clearing agreement to determine if our clearing firm deems us to be responsible for customer deficit; then both our firm, as the introducing firm, and our clearing firm will ensure that the amount of the deficit be deducted by:

a. the carrying broker-dealer upon occurrence; and
b. the introducing broker-dealer *"on the day after it becomes a charge to the carrying broker."*

If a customer or correspondent satisfies a deficit by agreeing to a payment schedule or agrees to make the clearing firm whole if the customer fails to honor an agreed payment schedule, the introducing broker-dealer must deduct the entire unpaid amount from its net worth in its net capital calculation.

In instances where a parent or affiliate entity of the introducing broker-dealer agrees to pay the deficit either in full or through payments, the introducing broker-dealer must comply with the SEC July 11, 2003 letter titled *"Recording Certain Broker-Dealer Expenses and Liabilities"* (see NASD Notice to Members 03-63), regardless of whether the introducing broker-dealer and the paying third party have an expense-sharing agreement for other purposes.

Net Capital Treatment of a Clearing Deposit upon Termination of the Clearing Agreement

Our FINOP will maintain, and refer to, a copy of FINRA Regulatory Notice 08-46 which contains the SEC Interpretation ("Interpretation I") regarding the circumstances under which a clearing deposit may be deemed an allowable asset upon termination of our clearing agreement (under Exchange Act Rule 15c3-1).

Clearing Agreements Containing an Early Termination Penalty Clause

Our FINOP will also review FINRA Regulatory Notice 08-46 "Interpretation II", which addresses termination penalty clauses of clearing agreements, and will review our clearing agreement, treating as non-allowable assets any clearing deposits of cash and/or securities held by our clearing firm, unless the clearing agreement contains the following language:

"In the event that (NAME OF INTRODUCING BROKER-DEALER) is the subject of the issuance of a protective decree pursuant to the Securities Investor Protection Act of 1970, (NAME OF CLEARING FIRM)'s claim for payment of a termination fee under this Agreement shall be subordinate to claims of (NAME OF INTRODUCING BROKER-DEALER)'s customers that have been approved by the Trustee appointed by the Securities Investor Protection Corporation pursuant to the issuance of such protective decree."

FINRA Assessment Charges/CRD Renewals

Policy Requirements

FINRA assesses member firms in three manners.

1. Transaction-Based Trading Activity Fees

   Firms are assessed a Trading Activity Fee for the sale of covered securities. Rates are based on various fees: per share for each sale of a covered equity security, per contract for each sale of an option, for each round turn transaction (treated as including one purchase and one sale of a

contract of sale for future delivery) of a security future, and per bond for each sale of a covered TRACE-eligible security and/or municipal security.

2. Gross Income Assessment

   This rate applies to the gross FOCUS revenue for the previous calendar year. Each broker-dealer shall pay an annual Gross Income Assessment (GIA) equal to the total of:

   - $1,200.00 on annual gross revenue up to $1 million;
   - 0.1215% of annual gross revenue greater than $1 million up to $25 million;
   - 0.2599% of annual gross revenue greater than $25 million up to $50 million;
   - 0.0518% of annual gross revenue greater than $50 million up to $100 million;
   - 0.0365% of annual gross revenue greater than $100 million up to $5 billion;
   - 0.0397% of annual gross revenue greater than $5 billion up to $25 billion; and
   - 0.0855% of annual gross revenue greater than $25 billion.

   Our FINOP must ensure that annual gross revenues as defined in Section 2 of Schedule A of FINRA By-Laws are reported, as required, for the previous calendar year and maintain proof of such reporting in the files.

3. **Personnel Assessment**

   Personnel assessment fees are based on the number of principals and registered representatives affiliated with a broker-dealer, with certain dollar amounts based on 1 to 5, 6 to 25, or 26 and more principals and registered representatives.

   Personnel Assessment Fees are not included through FINRA/CRD's annual renewal program. FINRA mails out invoices during the first quarter of each year. Our FINOP must ensure that this invoice is paid in a timely manner and maintain appropriate proof of such payment in the files.

State and Branch Office Renewals

Branch office assessments will be included in the CRD renewal program. All states collect their fees for our firm renewal and for the renewal of all registered representatives through the CRD renewal program. California, which does not require renewal fees for registered representatives, is the exception.

However, some states require documentation and/or material beyond renewal fees paid through WebCRD. Each such state will contact us, and our CCO will ensure that all such requests are responded to appropriately and in a timely manner.

Our CCO, working with the principal responsible for registration and licensing, will review WebCRD registration status early each January to ensure that no state or individual registration has inadvertently lapsed or been denied for any reason, evidencing such review by initials and dates.

Procedures and Documentation

Our FINOP and COO, working with our Licensing and Registration Principal, is responsible for ensuring that all FINRA assessment charges and CRD renewal invoices are paid in a timely manner.

Fiscal Year End Audited Financials

Annually, our FINOP must make every effort to see that our outside independent public accountant, registered with the Public Company Accounting Oversight Board ("PCAOB") completes our FYE Audited Financial Statement not later than 60-days after FYE. Otherwise, our FINOP will ensure that appropriate extension request letters are submitted PRIOR to the filing deadline.

The FINRA copy of our FYE audited financial statement is required to be filed in electronic form via FINRA's Firm Gateway (with a "courtesy" hard copy to our FINRA District Office).

In lieu of electronically filing with the SEC, two hard copies of the audited financials must be submitted to the SEC in Washington, DC, and one hard copy to the appropriate SEC Regional/District Office.

In addition, our FINOP must determine the states in which this broker-dealer is registered that also require receipt of our FYE audited financials, as well as the required submission deadlines. Documentation of FYE Audited Financial Statement submissions will be maintained in the files.

Financial Filing Extensions: FOCUS reports (both monthly, if required, and quarterly) must be filed no later than 17-business days after month- or quarter-end. FYE annual audited financials are due 60 calendar days after the end of our fiscal year.

Requests for extensions may only be made in exceptional circumstances, and, if such an extension request is made, it must be submitted in writing to, and received by, our FINRA District Office no later than three business days prior to the due date of the report, with all related documentation retained in the files.

Late Filing Fee

In Notice to Members 04-35, FINRA states that "failure to file such reports by the due date, or the revised due date if an extension has been granted, will result in a late fee of $100 per day for a maximum of 10 days, as described in Schedule A of FINRA's By-Laws." This late fee is an administrative fee and is therefore not a reportable event. FINRA also states that "all reports will be considered timely filed only when received at the appropriate time and at the required location."

Sarbanes-Oxley Act

The Sarbanes-Oxley Act and Section 17(e) of the Exchange Act require financial documents filed by broker-dealers to be certified by an independent public accountant registered with the Public Company Accounting Oversight Board ("PCAOB").

Disclosure of Financial Condition (FINRA Rule 2261)

a. A member shall make available to inspection by any bona fide regular customer, upon request, the information relative to such member's financial condition as disclosed in its most recent balance sheet prepared either in accordance with such member'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, a member may deliver the balance sheet to the requesting bona fide regular customer in paper or electronic form; provided that, with respect to electronic delivery, the customer must consent to receive the balance sheet in electronic form.
b. Any member who is a party to an open transaction or who has on deposit cash or securities of another member 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.
c. As used in paragraph (a) of this Rule, the term "customer" means any person who, in the regular course of such member's business, has cash or securities in the possession of such member.

General Ledger Accounts and Identification of Suspense Accounts

Procedures and Documentation

Our FINOP is responsible for designating an associated person to control and oversee each general ledger bookkeeping account (and account of like function), and determining that the account is current and accurate to comply with all applicable FINRA rules and federal securities laws governing books and records and financial responsibility requirements.

- Our FINOP (or our CCO) will maintain written documentation for everyone designated with "primary" responsibility for any account or accounts.
- Our FINOP (as supervisor) will review each account at least monthly to determine that it is accurate and that any aged or uncertain items are promptly identified for research and possible transfer to a suspense account(s).
- Our FINOP will record, in a suspense account, money charges, credits and receipts or deliveries of securities whose disposition is pending determination. All information available for each recorded item will be maintained.
- All records made pursuant to FINRA Rule 4523(c) will be preserved for a period of not less than six years (the period set forth in SEA Rule 17a-4(a)).

FINRA Approval Requirements

Supplementary Material (FINRA Rule 4523.01)

While we have more than one (1) associated person (registered and non-registered), we have determined that to ensure that our books and records are retained in an accurate and timely manner, we are best served by having the designated "primary" and "supervisory" responsibilities fulfilled by one individual.

Our FINOP (or our CCO) is responsible for seeking FINRA's prior written approval to assign primary and supervisory responsibility for each account to the same associated person (explaining in writing to FINRA

why such assignment is appropriate given our circumstances). Our FINOP or CCO will maintain all relevant correspondence and attendant documentation.

Firm Business Matters

Documentation

Regardless of whether the supervisory or review function is required as daily oversight (e.g., an on-going review and approval of new accounts and daily transactions, oversight of suitability determinations, correspondence review and approval, etc.), or as weekly, monthly, quarterly or annual reviews, we will maintain documentation that evidences all supervisory responsibilities and review activities, including:

a. The scope of the supervisory activity or review;
b. The individual undertaking the supervisory activity or review;
c. The dates of the supervisory activity or review;
d. Any pertinent findings during the supervisory activity or review;
e. Any remedial actions taken, if necessary; and
f. Other relevant information relating to the specific supervisory activity or review.

Net Capital Requirement Rule (Exchange Act Rule 15c3-1)

Policy Requirements

FINRA Rule 4110 requires that broker-dealers comply with Securities and Exchange Act Rule 15c3-1, known as the net capital requirement rule.

Procedures and Documentation

Under Exchange Act Rule 15c3-1, our FINOP is responsible for the following:

1. Ensure that net capital is computed in accordance with the provisions of the rule and that we have been (and are in) net capital compliance during all hours in which we conduct business;
2. Establish, maintain and verify that all accruals are posted properly and in compliance with Generally Accepted Accounting Principles. (NOTE: Cash-Basis Accounting is not allowed for financial reporting by the SEC, although it is allowed for tax reporting by the IRS.);
3. Distinguish allowable and nonallowable assets at a minimum of every two weeks. (NOTE: Receivables from other Brokers or Dealers for other than regular securities transactions are generally nonallowable for capital, including receivables from tax shelter programs.);
4. Make certain that the collateral value of any secured demand notes we carry (after appropriate "haircuts" are applied), equals or exceeds their face value;
5. Frequently review the market value of any inventory positions to identify concentrated positions (being conservative in valuations and making sure of "haircut" deductions);
6. Ensure that we are in full compliance under Exchange Act Rule 15c3-1 regarding any withdrawals of capital;

7. Establish procedures for the prompt preparation and filing of monthly and quarterly FOCUS reports (FOCUS II for carrying firms and FOCUS IIA for non-carrying firms) within the 17-business-day filing requirement;
8. Prepare a monthly net capital computation;
9. Ensure compliance with all notification provisions under Exchange Act Rule 17a-11, including notices relating to net capital and books and records deficiencies;
10. Notify regulators of any change in our fiscal year-end (FYE); and
11. Pay assessments and fees to regulators.

In accordance with FINRA Rule 4110, our FINOP will ensure that we adhere to the Rule's prohibition against withdrawing equity capital for a period of one year from the date it was contributed, unless otherwise permitted by FINRA in writing.

Customer Accounts

If we carry or clear any customer accounts, our FINOP will ensure that we obtain prior written approval before withdrawing any capital that exceeds 10 percent of the firm's excess net capital in any rolling 35-calendar-day period. This includes withdrawals of profits, routine dividends and similar distributions. If we carry or clear any accounts, we are also prohibited from making any unsecured advance or loan to a stockholder, partner, sole proprietor, employee, or affiliate where such advances or loans in the aggregate exceed 10 percent of the firm's excess net capital in any rolling 35-calendar-day period.

SEC Rule 17a-11 Notification

According to SEC Rule 17a, the FINOP, or his designee, is required to notify the SEC and FINRA of any net capital deficiencies when our:

- Net capital declines below its minimum net capital requirement (notice is required the same day);
- Aggregate indebtedness exceeds 1,200% of the our net capital (notice is required within 24 hours);
- Net capital computation shows that our total net capital is less than 120% of its minimum net capital requirement (notice is required within 24 hours);
- If we fail to make and keep current, the books and records required by SEC Rule 17a-3 (notice is required the same day); and
- If the Firm discovers, or is notified by an independent public accountant of the existence of any material inadequacy as defined in Sec. 240.17a-12(h)(2) (notice is required within 24 hours of discovery or notification).

The FINOP, or his designee, will transmit any notices required by Rule 17a-11 via telegraphic or facsimile transmission to the SEC's principal office in Washington, D.C., the SEC's regional office, and FINRA's principal office and regional office. The notification to FINRA will be via FINRA's electronic notification system.

Approval of Change in Exempt Status (SEC Rule 15c3-3)

Policy Requirements

FINRA Rule 1020 prohibits us from *"changing our method of doing business in a manner which would change our exempted status to a fully computing firm subject to all provisions under SEC Exchange Act Rule 15c3-3, or to commence operations that would disqualify us for continued exemption under our current exemption under 15c3-3, without first obtaining the prior written approval of FINRA."*

In December 2018, OCIE published its 2019 Examination Priorities, which included increased attention on broker-dealers entrusted with customer assets, specifically focusing on compliance with Rule 15c3-3, as well as procedures and controls to promote compliance.

Procedures and Documentation

Our FINOP, working with Senior Management, ensures that we do not undertake any activities that would change our net capital requirement or, if applicable, the Exchange Act Rule 15c3-3 exemption under which we operate, without prior notification to FINRA.

Our FINOP must also ensure that, any time our net capital falls below 120 percent of the minimum required (i.e., $6,000 for a $5,000 broker-dealer, $120,000 for a $100,000 broker-dealer), SEC and FINRA are immediately notified.

Should our net capital fall below the minimum required amount, our FINOP will immediately notify the SEC and FINRA and will alert Senior Management that we must immediately cease doing business.

- Our FINOP must ensure that we are compliant with the exemption under which FINRA has currently approved us to operate.
- To this end, our FINOP will undertake a quarterly review of our Checks Received/Disbursed log and Securities Received/Disbursed log, if applicable, evidencing such review by initials and dates.

A failure to appropriately disburse all customer funds and/or securities no later than noon of the business day following receipt could result in our losing our Exchange Act Rule 15c3-3 exemption and place us in net capital violation.

Quarterly, our FINOP will meet with our CCO to ensure that no activities occur that require a change in our minimum net capital requirement such as certain types of business or services which can increase our net capital requirement (i.e., maintaining a k(2)(i) account for mutual fund wire orders, firm commitment underwritings, accepting securities, maintaining a commission rebate program, more than 10 principal transactions a year, holding customer funds, etc.).

Risk Assessment/Management

Incident Response

Brighton Securities Corp's incident response policy, in conjunction with our Cybersecurity and Identify Theft Prevention policies in the WSPs, recognizes the critical importance of safeguarding the confidential and proprietary information of the firm and its employees.

It is our policy to respond promptly and appropriately, based on the particular circumstances, should the firm suspect or detect that unauthorized individuals have gained access to nonpublic information.

When determining the appropriate response, we will consider the degree of risk posed and aggravating factors that may heighten the risk of a data security incident that results in unauthorized access to nonpublic information held by us or a third-party service provider. Primary and immediate consideration will be given to evaluating and halting any ongoing attack and to promptly securing firm systems and information.

Each incident will be reviewed to determine if changes are necessary to the existing security structure and the firm's electronic and procedural safeguards to guard against similar attacks or infiltrations in the future. All reported incidents are logged as well as the remedial actions taken. It is the responsibility of our CCO to provide training on any procedural changes that may be required as a result of the investigation of an incident.

Procedures and Documentation

Lori Alberts is responsible for reviewing, maintaining and enforcing these policies and procedures to ensure meeting our overall incident response goals and objectives. Further, we will rely on our Cybersecurity Committee to also act as our Incident Response Team to address this critical area of oversight and protection.

All suspicious activity recognized or uncovered by personnel should be promptly reported to our CCO or the Incident Response Team.

Any questions regarding Brighton Securities Corp's incident response policies should be directed to our CCO.

In addition to the firm's procedures as set forth in the Cybersecurity and Identity Theft Prevention sections of the WSPs, Brighton Securities Corp will:

- [Periodically/monthly/quarterly], run incident response drill scenarios and regularly conduct mock data breaches to evaluate our incident response plan. We will generate reports from such testing and any responsive remediation efforts taken, if applicable;

In the event of a breach:

Compliance/Legal

- Contact Brighton Securities Corp's insurance agents and proper authorities in order to mitigate and enact any compensation controls, if needed, such as payouts for damages or providing extra protection services to our clients like free credit monitoring services;

- Provide notice to authorities and law enforcement such as the FBI;
- Contact our IT provider and make sure that they can correctly gain control of the data loss event;
- Notify clients that a breach occurred; and
- Provide training on any procedural changes that may be required as a result of the investigation of an incident.

IT

- Review each incident to determine if changes are necessary to the existing security structure and our electronic and procedural safeguards to guard against similar attacks or infiltrations in the future. All reported incidents must be logged as well as the remedial actions taken;
- Identify what has been taken, determine the damage of that leaked information, and take immediate steps to stop the exfiltration of data;
- Correlate all of the information from the firm's logs and determine what was taken and who took it to provide to authorities;
- Remove all malware, harden and patch systems, and apply any updates;
- Document as much information as possible during the actual breach;
- Review the inventory list and make sure all items are accounted for;
- Evaluate system processes to ensure they have all been restored; and
- Document any issues and difficulties that arose during the restoration process.

Incident Response Team

- Once the investigation is complete, hold an after-action meeting with all incident response team members and discuss what was learned from the breach. Analyze and document everything about the breach. Determine what worked well in your response plan, and where there were some holes;
- Designate members of the incident response team or lead cybersecurity personnel to review the incident, including the response and recovery process. Evaluate what happened, how quickly the response started, and how long it lasted. During the post-incident analysis, review documentation of the incident. During this analysis, create a report to document the findings;
- Draft a list of names and contact information for all of the vendors that are going to take a part in discovering, documenting, and fixing a breach;
- Use the post-incident analysis to evaluate the effectiveness of the current incident response plan. Address question such as:
    - Was the incident found in a reasonable amount of time?
    - Was the system down as long as expected?
    - Were the right personnel available to respond?
    - Did recovery and restoration happen in the time expected?
    - Were backups available and as up to date as possible?
- Gather all of the pertinent personnel to review the incident and collaborate on everyone's view on the success or failure of the response to the incident;
- If flaws are found in the incident response protocols, document potential changes to the plan based on the response to the incident; and

- Evaluate the team's performance, if the plan was clear to every member that plays a role in incident response, and if Brighton Securities Corp was able to contact everyone necessary during the event.

HR/Marketing

- Determine how to communicate the breach to internal employees, the public, and those directly affected.

Business Areas

Notice to Members 99-92 provides guidance on risk management policies and procedures.

Procedures and Documentation

Our CCO, Senior Management and other appropriate associated persons, will oversee our risk management procedures and controls.

Our CCO will conduct an annual review to assess the adequacy of our internal control and risk management system based on our specific product mix and attendant risk to our firm and report the findings to Senior Management. Our CCO will maintain documentation of the review.

Our CCO will determine and document the content of our risk management practices based on our specific product mix and attendant risk to this broker-dealer and our clients, based on the answers to the questions posed below:

- Do we adequately monitor trading risk in terms of supervisory structure, use of data, and risk measurement tools?
- Do we adequately monitor the consistency of information in our trade processing, financial reporting, and risk management systems, and ensure that we do not omit accounts and/or activities from our risk monitoring functions?
- Do we ensure that any trading counterparties have an established credit limit, and that credit reviews of approved counterparties are completed within prescribed time frames and adequately documented?
- Do we have sufficient number of experienced staff to oversee the development of our internal audit plans and undertake internal audits and oversee the development of our internal audit plans?
- Do we have sufficient staff to ensure that all registered personnel are adequately supervised?
- What criteria do we use to evaluate the adequacy of our risk measurement methodology for each activity?
- What role does everyone have in our risk management assessment?

Our CCO will ensure that we conduct (and document) an annual review of the appropriateness of our risk management procedures in light of current market conditions, recognizing that changes in external conditions may call for more frequent reviews.

Our CCO will coordinate all risk management efforts with Senior Management and maintain documentation detailing the efforts that have been made.

Conflicts of Interest

Policy Requirements

FINRA's *Report on Conflicts of Interest*, reviews members' approaches to identifying and managing conflicts of interests in three primary areas: (1) enterprise-levels frameworks to identify and manage conflicts of interest, (2) approaches to handling conflicts of interest in manufacturing and distributing new financial products, and (3) approaches to compensation of associated persons, particularly those acting as brokers for private clients.

FINRA Rule 3110(b)(6) requires a firm to have procedures reasonably designed to prevent the supervision required by FINRA Rule 3110 from being compromised by the conflicts of interest of associated persons' supervision, such as the supervised person's position, the amount of revenue such person generates for the firm or any compensation that the supervisor may derive from the associated person being supervised.

On June 5, 2019, the SEC adopted Regulation Best Interest, which requires broker-dealers to act in their clients' best interests when making an investment recommendation by meeting certain core obligations, one of which includes establishing, maintaining, and enforcing policies and procedures reasonably designed to address conflicts of interest.

Procedures and Documentation

Our CCO is responsible for ensuring that all senior management and other associated personnel identify all conflicts of interest, rate them by extent of regulatory and reputational risk, and put appropriate oversight and control procedures in place.

Once all conflicts have been identified and adequate controls have been put into place, our CCO is responsible for ensuring an annual review to (a) identify additional conflicts, (b) test the effectiveness of established controls and (c) ensure that all responsible individuals are fully aware of each conflict and that each is being effectively monitored and tested.

Conflicts of interest to be reviewed include (but are not necessarily limited to):

- Firm vs Client Conflicts;
- Client vs. Client Conflicts;
- Employee vs. Client Conflicts;
- Employee vs. Firm Conflicts; and
- Vendor vs. Firm Conflicts.

FINRA's 2013 Report on Conflicts of Interest provided the following elements of an "effective practice framework for managing conflicts of interest":

- Where are our problem areas?
- Who monitors what, and how?
- How do we detect conflicts as they evolve?
- How do we react to conflict of interest where there is a need for escalation procedures?
- How do we say “no” in order to avoid severe conflicts?
- What conflicts of interest disclosures do we need to make to clients (and how do we make them)?
- How do we adequately train staff to identify and manage conflicts in accordance with our policies and procedures?

For Regulation Best Interest, the SEC provided the following guidance on addressing the Conflict of Interest Obligation, stating that written policies and procedures must be reasonably designed to:

- Identify and at a minimum disclose or eliminate all conflicts of interest associated with investment recommendations;
- Identify and mitigate any conflicts of interest associated with such recommendations that create an incentive for the broker-dealer’s associated persons to place their interest or the interest of the broker-dealer ahead of the retail customer’s interest;
- Identify and disclose any material limitations, such as a limited product menu or offering only proprietary products, placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and prevent such limitations and associated conflicts of interest from causing the broker-dealer or the associated person to place the interest of the broker-dealer or the associated person ahead of the retail customer’s interest; and
- Identify and eliminate sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time.

Following the SEC guidance, our firm will:

- Prohibit any sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time with respect to Brighton Securities Corp's brokers;
- Monitor registered representatives’ recommendations to thresholds in our compensation structure to detect recommendations, or potential churning practices, that may be motivated by a desire to move up in the compensation structure and, thereby, receive a higher payout percentage;
- If a conflict or practice exists with respect to only certain classes of our clients, advice or transactions, we will fully disclose this even if it represents a minority of our AUM;
- Disclose the existence of any incentives provided to our firm or shared between our firm and others; and
- Evaluate and decline to offer products to customers when the conflicts associated with those products are too significant to be mitigated effectively.

IT Business Continuity Plan
for Brighton Securities.

Mission Statement: *To provide a comprehensive plan in case of emergency that addresses the following business needs***.**

- **Emergency response protocol.**
- **Hardware and software redundancy.**
- **Continuity of service.**
- **Resumption of service after emergency.**

Emergency Response Team:

In times where service interruption will happen due to an emergency, The Emergency Response team is to be mobilized to coordinate BCP activities and make sure that downtime is kept at a minimum. The Emergency Response team is as follows below.

Name	Title	Desk Phone
George Conboy	Chairman	585.340.2206
Jai Ramachandran	CEO	585.340.2211
Danielle Wilkins	CAO	585.340.2228
Doug Hendee	CSO	585.340.2232
Lori Alberts	CCO	585.340.2235
Joe Sweeney	IT Manager	585.340.2202

Locations:

Brighton Securities Operates out of two offices.

Brighton Office:

Address:
1703 Monroe Ave.
Rochester, NY 14618
Phone: 585-473-3590

Batavia Office:

Address:

212 E Main Street.
Batavia, NY 14020
Phone: 585.344.1850

Emergency Response Protocol.

When dealing with an emergency, Brighton needs to do the following.

1. Assess the scope of the emergency.
2. Determine appropriate action.
3. Document the outcomes to help with future emergencies.

Protocols for all 3 will be addressed below.

1. Assess the Scope of the Emergency.

To do so when an emergency situation is brought to the attention of any on the IT emergency response team the following questions need to be answered.

1. Are employees/visitors in danger? If so, dial 911 immediately.
2. Is any equipment/space in danger? If so, dial 911 immediately.
3. How long will normal business be impacted by the emergency?
4. Are there any clients who need to be redirected from the premises?

For 1 and 2:

If you have things such as but not limited to, fire, flood, extreme weather, earthquake, etc… Please make sure that the first person to see the emergency call 911 to report the emergency. The respondent should reach out via vocal or electronic communication to the response team to assemble and to update them on the emergency. If evacuation is needed the team members are to direct other employees to their designated evacuation zones.

Rochester:

Zone 1: The front of the building in front of the main entrance
Zone 2: The back of the building near the parking spaces there.
Zone 3: Directly in front of the Tax Department door.

Batavia:

Zone 1: The Side walk in front of the front door
Zone 2: The parking spaces behind the back door.

Once emergency response personnel are initiated and staff are secured move onto 3 and 4.

For 3 and 4:

When looking at business interruption you must factor in

1. What resources are currently up and running? Is the Network up? Is there power? Are phones working? Can we fail safe over?

2. Has any outside factors given a time table to when normal business can resume?

The response team is to either conference in via or Bridge line Dial (866) 576-7975 Host Code: 137592 Guest Code: 625914 or in person to discuss 1 and 2. The IT Coordinator/Manager is to determine what the service interruption is, if any and communicate that with the response team and the whole team if possible. If the IT Coordinator/Manager is not present or reachable, the CAO is to determine to the best of their ability. From there if it is determined that any office is unusable or a danger, each team manager is to check with their constituents to try and reach out to their appointments for the immediate future to let them know that they cannot come to the office.

2. Determine the appropriate action.

Now that the time frame has been assessed for an emergency, it's time to coordinate how to continue working. It is best to deal with scenarios as they would come up for these purposes.

Scenario 1 Internet outage:

Internet outages are probably the most common emergencies that occur. There is no immediate danger just lost productivity time to be accounted for. When an internet outage has occurred the actions are to.

1. IT Manager to identify the length of the outage.
2. **If it is under 2 hours**: Let everyone know that it will be down temporarily.
3. **If it is over 2 hours:** Advisors can be excused to work from home. CAO will work from home to help take care of Service requests. Staff will be there to assist with any clients that come in.

Scenario 2: Short Term Office interruption. (1-3 days)

What needs to be addressed are some key factors such as, Length of Duration of downtime, potential damage to the office/equipment, and work flow interruption.

1. The first person who notices a problem will immediately contact any emergency personal via 911 if there is any threat to employees or the physical integrity of the office and it's objects.
2. After the correct danger has been addressed from a pragmatic standpoint, the first responder will contact George Conboy to get the Emergency response team together and setup the conference bridge.
3. The Emergency Response team will gather the needed information together from emergency responders/ utility companies/engineers/contractors to determine the length of the service interruption for the section/entire office.
4. The Emergency Response team will then call direct employees. This will allow us to direct employees to await instruction and to not go into the office. People with upcoming appointments are encouraged to reach out to their customers and let them know that they may have to reschedule appointments due to the office being not useable.

5. IT then will contact CMS Max with specific verbiage to put on the Front page of the website. This is meant to deter anyone Customers from coming into the office.
6. If one office is up, management will setup at that office to keep business flowing. If both are down, refer to “Major Issues, Part 2” for how business work flow will continue from the “Brighton Securities Cybersecurity Incident Response Plan.docx” document.
7. If any equipment is damaged, IT’s responsibility will be to assess the damage and initiate a replacement procedures as below.
    1. For damaged servers we will contact Capstone IT INC.
8.
    2. For damaged PCs contact CDW to have new ones ordered, the IT manager will then setup an imaging station at either office or from a remote location.
9. If there is any damage to our copier equipment, we will need to contact Eagle Systems
10. If our check printer is down more than 1-2 days, we can ask for a temporary setup.

Scenario 3: Long Term Office interruption. (3+ days)

What needs to be addressed are some key factors such as, Length of Duration of downtime, potential damage to the office/equipment, and work flow interruption.

11. The first person who notices a problem will immediately contact any emergency personal via 911 if there is any threat to employees or the physical integrity of the office and it’s objects.
12. After the correct danger has been addressed from a pragmatic standpoint, the first responder will contact George Conboy to get the Emergency response team together and setup the conference bridge.
13. The Emergency Response team will gather the needed information together from emergency responders/ utility companies/engineers/contractors to determine the length of the service interruption for the section/entire office.
14. The Emergency Response team will then call direct employees. This will allow us to direct employees to await instruction and to not go into the office. People with upcoming appointments are encouraged to reach out to their customers and let them know that they may have to reschedule appointments due to the office being not useable.
15. IT then will contact CMS Max with specific verbiage to put on the Front page of the website. This is meant to deter anyone Customers from coming into the office.
16. If one office is up, management will setup at that office to keep business flowing. If both are down, refer to “Major Issues, Part 2” for how business work flow will continue from the “Brighton Securities Cybersecurity Incident Response Plan.docx” document.
17. If any equipment is damaged, IT’s responsibility will be to assess the damage and initiate a replacement procedures as below.
    1. For damaged servers contact we will contact Capstone IT INC.
18. If there is any damage to our copier equipment, we will need to contact our rep at Eagle Systems.
19. If our check printer is down more than 1-2 days, we can ask for a temporary setup.
20. If the office is anticipated to be down for 7 business days+, an offsite secondary location should be initiated. IT will coordinate with Service providers to make sure appropriate

hardware/services ends up at the new location. This will include
-Server hardware
-PC Hardware
-Phone Hardware
-Internet Service
-Check printing VPN.

3. Document the outcomes to help with future emergencies.

After service is restored and offices are back to normal functioning order, There will be a few items to consider in case of future emergencies. A meeting between the response team shall commence within the first week of full restored service. This data can be helped with future planning and future BCP protocols. Things to consider are:

1. What worked well? What helped the business recover the most?

2. What hindered the team? What things need to be changed in the protocol?

3. What did we learn about our infrastructures strengths and weaknesses that show a need for change in infrastructure?

4. Is the current system still viable after this catastrophe or is an overhaul needed?

Financial Controls and Risk to Capital

Procedures and Documentation

Our FINOP, in partnership with Senior Management and other appropriate associated persons, will oversee financial controls for our risk management procedures.

Our FINOP will determine the overall risk to our capital, based on the nature of our business, our customers, the way we do business, the location of our sales personnel, and other factors.

Quarterly, our FINOP, CCO, and CAO will meet to discuss the FINOP's concerns, and to bring the FINOP up-to-date on any internal changes which may impact our financials or present a risk to our capital.

Should the FINOP believe there are issues that may impact our capital or put us at financial risk, he/she will immediately bring the matter to the attention of Senior Management. We will maintain documentation of any such occurrences.

Accounts

Customer Account Statements and Confirmations

Change of Customer Addresses

Responsibility

The CAO ensures that all address changes are handled in compliance with all rules, regulations and requirements.

Procedure

- The assistant will ensure that address change requests are verified by the customer, and either Brighton Securities or First Clearing will send out a verification letter going out to BOTH the old AND new addresses. Copies of such verification letters will be maintained either in the client's files or by Compliance.
- Address change requests must be approved by an appropriate supervisor, with such approval documented in SmartStation.
- Requests to change an address to a post office box will only be accepted if the customer's permanent street address is maintained in the client files, both at the home office and branch, if the latter is applicable.
- Approval for any requests that the registered representative's branch office address be utilized will only be accepted if duplicate mailings are also made to the customer's home address.
- All requests to change delivery to a third-party address or to deal with a third party in any manner concerning a customer account must be obtained in writing from the client, and all appropriate documentation (i.e., power of attorney) must be included in the request. Such approved address changes will be documented by the approving principal's initials and date of approval, and the addresses will be maintained in all appropriate files.
- We will maintain documentation of any investigations undertaken in cases where procedures are not followed, including any corrective measures taken.

Customer Mail Retention

Procedures and Documentation

We may hold mail for a customer who will not be receiving mail at his or her usual address, provided that:

1. We receive written instructions from the customer that include the period during which we are requested to hold mail; and
2. If the requested period is longer than three consecutive months (including any aggregation of time periods from prior requests), the customer's instructions must include an acceptable reason for the request (e.g., safety or security concerns). Convenience is not an acceptable reason for holding mail longer than three months.

We must advise the customer in writing of any alternate methods, such as email or access through our website, that the customer may use to receive or monitor account activity and information; we must obtain the customer's confirmation of the receipt of such information; and we must verify at reasonable intervals that the customer's instructions still apply.

During the time that we hold mail for a customer, we must be able to communicate with the customer in a timely manner to provide important account information (e.g., privacy notices, the SIPC information disclosures required by Rule 2266), as necessary.

We must take actions reasonably designed to ensure that the customer's mail is not tampered with, held without the customer's consent, or used by an associated person in any manner that would violate FINRA rules or the federal securities laws.

Independent Verification of Proprietary or Customer Assets

Policy Requirements

Under FINRA Rule 4160, we will be prohibited from continuing to have custody or retain record ownership of assets at a non-FINRA-member financial institution which fails promptly to provide FINRA with written verification of assets maintained by us upon FINRA’s request.

Procedures and Documentation

Our FINOP, working with our CCO and other appropriate members of Senior Management, is responsible for ensuring that we are able to comply with FINRA Rule 4160 ("Independent Verification of Assets").

FINRA Rule 4160 is not applicable as this broker-dealer does not have proprietary or customer assets independently held at any non-FINRA member financial institutions.

Our FINOP and CCO will document discussions with any non-FINRA member financial institutions where proprietary or customer assets are held to advise them of this Rule, and to ensure that the financial institution knows, should we be required to transfer our assets pursuant to this Rule, such transfer must be accomplished "in a reasonable period of time."

[While Rule 4160 does not require that we enter into written contracts with non-FINRA member financial institutions maintaining our proprietary or customer assets, obligating the non-FINRA member financial institutions to comply with FINRA's requests for verification, FINRA has stated in Regulatory Notice 10-61 that "FINRA strongly encourages its member firms to enter into such contracts."]

Our FINOP, CCO and other members of Senior Management will determine how to handle the matter of written contracts, documenting the decision(s) made and the rationale of such decision(s).

Lost Stockholders

Procedures and Documentation

Our CAO is responsible for ensuring that appropriate individuals (client service associates) are fulfilling the responsibilities under SEC's Exchange Act Rule 17Ad-17 on the requirement to search for holders of securities with whom we have lost contact and providing notifications to persons who have not negotiated checks that have been sent to them. We receive notification from First Clearing or company directly and follow their procedures.

Per Share Estimated Values

Policy Requirements

FINRA Rules 2231 and 2310 cover disclosures and advisory notices that must be included on customer account statements, including requirements concerning per share estimated values of DPPs and unlisted REITs.

Reliability of per share estimated values:

- A general securities member shall include in a customer account statement a per share estimated value of a direct participation program (DPP) or unlisted real estate investment trust (REIT) security, developed utilizing either a Net Investment Methodology or an Appraised Methodology.

FINRA Rule 2231 disclosure requirements:

- An account statement that provides a "net investment" per share estimated value for a DPP or REIT security under paragraph (c)(1)(A) shall disclose, if applicable, prominently and in proximity to disclosure of distributions and the per share estimated value the following statements: "IMPORTANT—Part of your distribution includes a return of capital. Any distribution that represents a return of capital reduces the estimated per share value shown on your account statement."
- Any account statement that provides a per share estimated value for a DPP or REIT security shall disclose that these securities are not listed on a national securities exchange, are generally illiquid and that, even if a customer is able to sell the securities, the price received may be less than the per share estimated value provided in the account statement.

FINRA Rule 2310 disclosure requirements:

A member shall not participate in a public offering of the securities of a direct participation program (DPP) that is not subject to the requirements of the Investment Company Act of 1940 or of a REIT unless the issuer of the DPP or REIT has agreed to disclose:

- a per share estimated value of the DPP or REIT security, developed in a manner reasonably designed to ensure it is reliable, in the DPP or REIT periodic reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act;
- an explanation of the method by which the per share estimated value was developed;
- the date of the valuation; and

- in a periodic or current report filed pursuant to Section 13(a) or 15(d) of the Exchange Act within 150 days following the second anniversary of breaking escrow and in each annual report thereafter, a per share estimated value:
    i. based on valuations of the assets and liabilities of the DPP or REIT performed at least annually, by, or with the material assistance or confirmation of, a third-party valuation expert or service;
    ii. derived from a methodology that conforms to standard industry practice; and
    iii. accompanied by a written opinion or report by the issuer, delivered at least annually, that explains the scope of the review, the methodology used to develop the valuation or valuations, and the basis for the value or values reported

Procedures and Documentation

The Company's clearing firm and investment companies whom we have a selling agreement with, on behalf of the Company, provides no less frequently than each calendar quarter a customer account statement showing securities positions, money balances and account activity during the period. The Company's prime brokerage customers, if any, are not covered under this Rule. DVP/RVP accounts may opt out of receiving customer statements if the conditions described in Rule 2430(b) are met, including receiving and maintaining a written request from the customer. The Company receives copies of customer statements via SmartStation, or through fund company access, for review and to meet regulatory requests for such records.

Handling Customer Funds and Securities

Bulk Transfers/Negative Response Letters

Policy Requirements

NASD Notice to Members 02-57 addresses the use of negative response letters for the bulk transfer of customer accounts.

- FINRA Rule 3260(d) allows broker-dealers to use negative response letters in certain situations to affect the bulk exchange of a customer's money market mutual fund for a different fund without the affirmative consent of the customer, provided that certain conditions are met:
    - FINRA permits the use of negative response letters to document an institutional customer's agreement to trade with a firm on a net basis (Notice to Members 00-79).
    - In limited circumstances, FINRA rules also permit the use of negative response letters to obtain authorization to take certain actions on behalf of customers without obtaining affirmative consent, including:
        - Broker-dealers experiencing financial or operational difficulties;

- Introducing broker-dealers going out of business;
- Changes in networking arrangements with a financial institution (under FINRA Rule 3160);
- Acquisitions or mergers of broker-dealers; and
- Change in clearing firm.

Procedures and Documentation

Our CCO ensures that we utilize negative response letters for bulk transfers only in appropriate situations; negative response letters are therefore strictly prohibited unless expressly permitted under FINRA rules and approved by Compliance.

Our CCO must ensure that each customer receives the following information in the negative response letter:

- A brief description of the circumstance necessitating the transfer;
- A statement on how the customer can effectuate a transfer to another firm;
- A sufficient period for the customer to respond to the letter (minimally 30 days from receipt of the letter, unless circumstances exist that warrant a shorter time frame);
- Disclosure of any costs imposed on the customer because of the transfer, including costs to the customer if the customer initiates a transfer of the account after the account is moved pursuant to the negative response letter; and
- A statement regarding the firm's compliance with Regulation S-P (Privacy) about the transfer.

[FINRA feels strongly that, where possible, a customer should affirmatively consent to the transfer of his or her account to another firm because the decision requires the consideration of various factors (i.e., level and quality of service of the new firm, fees and charges imposed by the new firm, the cost of the transfer, etc.)]

Our CCO will maintain documentation of all negative response letters utilized for any bulk transfer, including the rationale for such use.

In instances when this firm receives notice of a bulk transfer, our CCO is responsible for ensuring that we provide our privacy notices, including opt-out provisions, if appropriate, to customers upon the establishment of the account.

Cost Basis Information for Customer Account Transfers

Policy Requirements

Impeding the transfer of cost basis information upon customer request violates FINRA Rule 2010 that requires all FINRA member firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

Although cost basis information is reported on customer confirmations and account statements, customers who have not kept their confirmations and statements may be unable to gather this

information themselves and would therefore not be able to compute gains and losses for tax purposes. While the customer's assets may be electronically moved to his or her new broker-dealer through the National Securities Clearing Corporation's (NSCC) Automated Customer Account Transfer Service (ACATS), ACATS does not transfer cost basis information. NSCC does offer participation in the Cost Basis Reporting Service (CBRS), an automated system that gives brokerage firms the ability to transfer customer cost basis information from one firm to another on any asset transferred through ACATS.

Procedures and Documentation

Our CCO must ensure that, where possible, cost basis information is supplied as a matter of course as part of any account transfer process.

Rule 2010 does not require that we create this information upon customer request if we do not already maintain it in some fashion in an electronically transferable form.

However, if we do have cost basis information available (either through our participation in CBRS or through retention in some electronic mode) and are therefore able to transfer it to another firm "tape-to-tape," our CCO must ensure that we supply this information as part of any account transfer process.

Our CCO will review and document all account transfers at least annually to ensure that, where available, this cost basis information was transferred to a customer's new broker-dealer.

Where we maintain this information in an accessible format electronically or otherwise, it will be made available to any customer upon request.

Requests by Customers

Policy Requirements

FINRA Rule 2140 (previously IM-2110-7) provides that "*no member or person associated with a member 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.*" Prohibitive interference includes 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.

Rule 2140 does not prevent a broker-dealer from using employment agreements to prevent former representatives from soliciting firm customers, nor does it prevent us from pursuing other remedies to address employment disputes with former registered representatives.

Employment restrictions concerning solicitation of customers upon a registered representative's termination, or the sharing of information relevant to this firm with another firm, cannot be construed as prohibiting an account transfer that has been directly requested by a customer.

Procedures and Documentation

Our CCO oversees all customer account transfer requests, and ensures such transfers occur without any unnecessary delays and without any attempts to persuade customers not to transfer their accounts.

Transmittal or Withdrawal of Asset Requests Received Via E-Mail

Policy Requirements

From FINRA Regulatory Notice 12-05: *"The requirement that firms have supervisory procedures for reviewing and monitoring transfers of customer assets applies to both clearing and introducing firms. Further, FINRA Rule 4311(c) requires that when customer accounts are to be carried on a fully disclosed basis, the carrying firm be allocated the responsibility for the safeguarding of customer funds and securities.*

Both firms must have policies and procedures in place to ensure that their respective regulatory and contractual responsibilities are met. For example, the firms may agree that the introducing firm is responsible for verifying a customer's identity and that the instructions originated with the customer, in which case the introducing firm must have adequate policies and procedures to ensure that it effectively carries out this function.

However, the carrying firm must still have adequate policies and procedures to review and monitor all disbursements it makes from customers' accounts, including but not limited to third-party accounts, outside entities or an address other than the customer's primary address.

A firm's procedures should also specify how instructions to withdraw or transmit assets may be conveyed, including which employees of the introducing firm are authorized to transmit instructions to the clearing firm on the customer's behalf, and both firms are responsible for ensuring that their employees follow their respective procedures.

Procedures and Documentation

Our CCO is responsible for documenting if we permit email requests to transmit or withdraw assets from client accounts and for ensuring that, if we do, we have appropriate oversight (specifically verification) policies and procedures in effect.

> Brighton Securities **DOES PERMIT** email or other electronic means of requesting funds or assets transmittals or withdrawals from client accounts. Therefore, we have the following policies and procedures in effect.

We have put into effect policies and procedures regarding the acceptance of accepting instructions to withdraw or transfer funds via electronic means which are adequately designed to protect customer accounts from the risk that customers' email accounts may be compromised and used to send fraudulent transmittal or withdrawal instructions.

All individuals having any part in opening new client accounts must advise the client that no email request for withdrawal or transfer of client assets will be acted upon until a follow up call has been made verifying that the client did, in fact, submit such a request.

Clients are also advised to notify their registered representative immediately upon becoming aware that their email or other electronic means of communication have been compromised.

In instances where we are advised that the request did not come from the client, individuals are required to immediately notify our CCO who will ensure that an appropriate investigation is immediately begun, and that proper authorities (including FinCEN) are notified.

Quarterly, utilizing exception reports showing movement of assets from client accounts, our CCO, or an appropriately designated individual, will undertake random sampling and testing of transfers and withdrawals to monitor for compliance.

Negative Response Letters

Policy Requirements

FINRA has indicated that, because negative response letters are not appropriate when a "direct application" account's broker-dealer of record is changed, a customer's affirmative consent must be obtained prior to the change.

While such direct application accounts (mutual funds and variables) are not per se an account transfer, regulators have deemed them to be a transfer when a notification to the fund or other entity is made to change the name of the broker-dealer of record, thereby changing the broker-dealer to which commissions are directed.

Procedures and Documentation

The CCO will:

- Ensure that we do not utilize negative response letters for changing broker-dealer status for direct business;
- For non 'direct application' account transfers, the lack of response to a negative response letter does not permit us to automatically exchange shares unless we have prior written authorization from the customer permitting us to exercise discretion in the account;
- Ensure that when such direct business is transferred to us a letter goes out to the client requesting an affirmative consent; and
- Oversee an annual review of all change of broker-dealer notifications to ensure that we have received an affirmative response from all clients.
- Affiliated personnel are not permitted to send out negative response letters without receiving prior approval from our CCO. Individuals found to have violated this prohibition will be spoken to and internal disciplinary measures may be taken.
- Our CCO will evidence such reviews by initials and dates on the notifications.

New Account Procedures

Customer Age

Policy Requirements

All accounts, except institutional accounts, must include a customer's age. No one under the age of majority may open an account UNLESS the account is carried as a custodian account. For life insurance sales, the age of majority is 15 years, 6 months.

No one may open an individual or joint account in the name of any person who has not attained the age of majority in his/her state of residence.

Everyone's direct supervising principal must ensure that the individuals under their direct supervision appropriately handle all suitability requirements related to the age of the investor, in compliance with rules, regulations and definitions.

UGMA/UTMA

An adult custodian may open an account for the benefit of a minor under either the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA). All states and U.S. territories have adopted either one, or both, of these Acts.

New account documentation required to open a UGMA or UTMA account must include the following:

- Minor's date of birth;
- Minor's state of residence; and
- Minor's social security number.

In states with laws modeled on UGMA, the account title must be: *(Custodian's name)* as custodian for *(Minor's name)* under the *(State)* UGMA

In states with laws modeled on UTMA, the account title must be: *(Custodian's name)* as custodian for *(Minor's name)* under the *(State)* UTMA

A transfer of property into a UGMA or UTMA account represents a complete and irrevocable transfer of property to the minor. The transferor gives up all rights to the property; the transfer cannot be revoked.

Restrictions on Custodial Account Transactions

- An UGMA or UTMA account can only list one custodian and one minor.
- Joint custodians and/or joint minors are not permitted.
- Powers of attorney giving discretionary authority over a UGMA or UTMA account to persons/entities other than professional money managers are PROHIBITED and will not be accepted.
- UGMA or UTMA accounts are not eligible for margin trading.
- UGMA or UTMA accounts are not eligible for futures trading.

- Option trading activity is limited in UGMA or UTMA accounts to purchasing puts against long stock positions and selling covered calls.

Procedures and Documentation

The CAO undertake ongoing reviews of all new accounts and transactions, indicating review for appropriate age restrictions, limitations and appropriate disclosures either by initials and dates or by the principal's signature on the new account form.

The CAO will also:

- monitor and keep records of when beneficiaries would reach the age of majority; and
- provide notifications to custodians to advise them that beneficiaries were approaching the age of majority and informed them about upcoming transfers of custodial property in their UTMA/UGMA Accounts, as well as any restrictions to the custodians' trading authority after the beneficiaries reached the age of majority.

Customer Verification of Account Information

Policies and Documentation

Our CCO must undertake appropriate reviews to determine that all customers have verified their new account information within 30-days after opening an account.

There are ongoing reviews of all accounts opened three years prior to such annual review to ensure compliance with the requirement that all customers receive copies of their new account information every three years (36 months) after opening the account.

The designated principal will ensure that we address this requirement annually, as required under Exchange Act Rule 17a-3, either during our Annual Compliance Meeting, through our CE efforts or by some other manner.

Good Faith Efforts

The designated principal will ensure that all new account information sent to customers for verification prominently displays a statement that the customer should mark any corrections and return the account record on file with any corrections plainly indicated. The statement will also ask the customer to notify us of any future changes to information contained in the account records.

Customers Affiliated with FINRA

Policy Requirements

FINRA Rule 2070 requires that, when a FINRA employee has a financial interest in, or controls trading in, an account, our CCO must ensure that we "obtain and implement" an instruction from the FINRA employee that we provide duplicate account statements to FINRA.

Procedures and Documentation

Our CCO must verify that the appropriate question appears on our new account forms and our full compliance with FINRA rules regarding customers affiliated with FINRA or the American Stock Exchange ("AMEX").

Customers Associated with Another Broker-Dealer

Procedures and Documentation

Our CCO must ensure that our new account forms request information on whether the customer's employer is another broker-dealer, and that we have appropriate policies and procedures in place to adhere to FINRA rules regarding customers who respond affirmatively.

Based on the requirements of Rule 3210, prior to approving a new account for an individual who is associated with another FINRA member firm, the CCO will review the account documentation to ensure that the execution of transactions with such account will not adversely affect the interests of the employing broker-dealer.

In addition, our CCO ensures that prior to final approval of the account, written notification to the employing broker-dealer of our intention to open and maintain the individual's account, including notice that we must receive a written request from the employing firm indicating whether it wants duplicate copies of confirms, statements, and/or other information with respect to such account.

Institutional Accounts

Policy Requirements

FINRA Rule 2090 (Know Your Customer) reads as follows:

Every member shall use reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer.

For purposes of FINRA Rule 4512 (Customer Account Information) and FINRA Rule 2111 (Suitability), an institution is (a) a bank, savings and loan association, insurance company or registered investment company; (b) an investment adviser registered with either the SEC under Section 203 of the Advisers Act or with a state securities commission (or any agency or office performing like functions); or (c) any other entity (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least $50 million.

Procedures and Documentation

We will employ the following procedures when opening an institutional account.

- Salespersons will obtain information (in accordance with Rule 2090) required on new account forms and deliver the information, with specifically stated instructions, to a principal.
- Require (if applicable) the institutional account to provide their Large Trader Identification Number (LTID).
- The principal will determine what, if any, additional documentation (e.g., agreements, corporate resolutions) may be required.

Institutional Account Suitability

FINRA Rule 2111, Supplementary Material .07

Institutional Investor Exemption. Rule 2111(b) provides an exemption to customer-specific suitability for institutional investors if: The institutional investor states that it is exercising independent judgment in evaluating the member's or associated person's 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 for all potential transactions for its account.

Rule 2111(b): A member or associated person fulfills the customer-specific suitability obligation for an institutional account if: (1) the member or associated person has a reasonable basis to believe that the institutional customer is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies and (2) the institutional customer affirmatively indicates that it is exercising independent judgment in evaluating the member's or associated person's recommendations. Where an institutional customer has delegated decision making authority to an agent, such as an investment adviser or a bank trust department, these factors shall be applied to the agent.

Suitability Requirements

To fulfill our suitability requirements to institutional customers our responsibilities include:

a. Having a reasonable basis for recommending a security or strategy, as well as reasonable grounds for believing that the recommendation is suitable for the customer.

   The two most important considerations in determining the scope of broker-dealer suitability obligations in making recommendations to an institutional customer are:

   1. The customer's capability of evaluating investment risks independently; and
   2. The extent to which the customer exercises independent judgment in evaluating a broker-dealer's recommendation.

   If our customer is either not capable of evaluating investment risks or lacks sufficient capability to evaluate a product and its risks, our obligation under the suitability rule IS NOT diminished by the fact that we are dealing with an institutional customer.

b. If the customer's investment decision is based on its own independent assessment of the opportunities and risks presented by a potential investment, market factors and other investment considerations.

Determining a Customer's Ability to Evaluate Risk Independently

Such a determination depends on an examination of the customer, including resources available to them to make informed decisions. Several factors relevant to making such a determination include: (1) the use (by the customer) of one or more consultants, investment advisers, or bank trust departments; (2) the general level of experience of the customer in financial markets and with the type of instruments under consideration; (3) the customer's ability to understand the economic features and risks of the security involved; (4) the customer's ability to independently evaluate how market developments might affect the security; and (5) the complexity of the security of securities involved.

Determining a Customer's Ability to Make Independent Investment Decisions

Several considerations include, but are not necessarily limited to (1) any written or oral understanding that exists between the broker-dealer and the customer regarding the nature of their relationship and the services to be rendered by the broker-dealer; (2) a pattern of accepting or rejecting recommendations of the broker-dealer; (3) the customer's use of ideas, suggestions, market views and information obtained from other broker-dealers and/or market professionals, specifically those relating to the same type of securities; and (4) the extent to which the broker-dealer has received from the customer's current comprehensive portfolio information in connection with the discussion of recommended transactions.

Each registered individual opening new accounts, or undertaking securities transactions on behalf of an account, must use due diligence and learn as many essential facts as possible concerning our customers.

Investment Objective Terminology

Procedures and Documentation

Our CCO must ensure that the investment objective terms used on our new account forms and other documents given to clients and utilized by our registered personnel to determine suitability, are explained in clear and concise terms.

In addition, each term will include its definition to avoid any possible confusion on behalf of the customer. The designated principal must ensure that such definitions are not ambiguous or misleading.

Our CCO will review forms/updates to ensure that new terminology has not been added without the required plain-English descriptions.

Retail Accounts

Policy Requirements

FINRA Rule 2090 (Know Your Customer) must be complied with for all new accounts: *Every member shall use reasonable diligence, for the opening and maintenance of every account, to know (and retain) the essential facts for every customer and the authority of each person acting on behalf of such customer.*

Supplementary Material:

.01 Essential Facts. Facts "essential" to "knowing the customer" are those required to (a) effectively service the customer's account, (b) act in accordance with any special handling instructions for the account, (c) understand the authority of each person acting on behalf of the customer, and (d) comply with applicable laws, regulations, and rules.

"Essential facts" relates to the "investor profile" information as outlined in FINRA Rule 2111, as follows: *A 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 to the member or associated person relating to such recommendation.* The following checklist represents the minimal amount of information that either must appear on a new account form or must be "obtained" and documented in some manner:

- Customer's full name and residential address;
- Date of birth (customer must be of legal age);
- Name of employer;
- Is the employer a registered broker-dealer;
- Is the customer affiliated with FINRA;
- Other investment holdings;
- Financial situation and needs;
- Tax status;
- Investment objectives;
- Investment experience;
- Investment time horizon;
- Liquidity needs;
- Risk tolerance; and
- Other information which may be relevant to take into account when making an investment recommendation.
- For any account opened for a ‘specified adult’ as defined in FINRA Rule 2165, an effort will be made to obtain the name and contact information for a trusted contact

Procedures and Documentation

Each registered individual opening new accounts or undertaking securities transactions on behalf of an account must use due diligence and learn as many essential facts as possible concerning our customers.

Our CCO will ensure that ALL affiliated personnel are given copies of, or access to, FINRA Regulatory Notices 11-02 and 11-25 (the latter with valuable FAQs) to ensure their full understanding of the requirements under FINRA Rule 2111.

On any recommended transaction, we must take into consideration the relevant "essential facts" obtained for the client profile, to document our suitability determination. See further within this document "Suitability: Investment Recommendations".

A new account form containing the signature of the registered individual who opened the account, the customer and a supervising principal, whose signature indicates approval, will evidence the appropriate gathering of all required information.

We will obtain and maintain information concerning any special circumstances appropriate to any unusual transactions with the new account forms.

We conduct ongoing reviews daily when any new accounts are opened and upon the raising of suitability or other matters (i.e., switching, churning, etc.), otherwise, we will conduct an annual internal audit event. However, should situations arise (i.e., concerns with particular registered representatives, AML issues or other concerns), such account reviews may be ongoing. Our CCO will make notes to the client files concerning any such reviews. For account openings, the principal signing off on the new account form will evidence such reviews.

Updating and Periodic Affirmation

Procedures and Documentation

Our CCO will ensure that customer account information is updated, as required, and that we obtain the required periodic affirmation of such information from customers.

Designated principals ensure that the customer is contacted by mail or telephone if we do not receive verification from the customer in a timely manner. We will document such efforts in the files.

At least every 36 months, we will provide customers with the new account information we have on record and ask them to advise us of any changes or updates. Exempted from this requirement are those accounts that have been inactive for 36 months or accounts for which no registered personnel of this firm have made any recommendations.

Our CCO will ensure annual review of all customer account information verification requirements.

Third-Party Requests

Procedure

All requests to change delivery of materials (i.e., statements, confirms, etc.) to a third-party address, or to have funds sent to a third-party, or to deal with a third-party in any manner concerning a customer account, must be obtained in writing from the client, and all appropriate documentation (i.e., Power of Attorney) must be on hand.

Margin Accounts

Procedure

To open a margin account, the client must sign a margin agreement. This agreement states the rules the customer must follow and allows Brighton Securities to hypothecate, or pledge the customer's securities, at the bank to secure the call loan. Brighton Securities may hypothecate securities equal to 140% of the customer's debit balance; however, Brighton Securities may borrow only an amount equal to the debit balance. Securities exceeding the 140% figure should be segregated. All margin account securities shall be held in the "street name" of the Company's clearing firm, so that it may sell them if the customer cannot meet the margin call.

Trust accounts, estate accounts and other legally created entities may not maintain margin accounts unless the documentation (i.e., trust indentures, wills and corporate resolutions) specifically permit margin transactions. A margin account for any such entity may not be opened unless it is approved in writing by the designated Principal. Short sales in any such account also require the prior written approval of the designated Principal. Custodian accounts for the benefit of a minor or pension or profit-sharing accounts must not, in any case, be maintained on margin. The specific written approval of the designated Principal is required to establish margin accounts for securities industry employees.

With respect to non-institutional customers (those who do not qualify as an "institutional accounts" under Code of Conduct Rule 3110(c)(4)), prior to of at the time of opening an account, the Registered Representative is required to furnish to the customer individually, in writing or electronically, a copy of Brighton Securities' Margin Disclosure Statement (see Forms Section). The customer is required to acknowledge receipt of the Margin Disclosure Statement. Also, as of July 1, 2002, if the Company permits non-institutional customers either to open accounts on-line or to engage in transactions in securities on-line, it must post such Margin Disclosure Statement on its website in a clear and conspicuous manner. The designated Principal in his or her periodic reviews of customer accounts, will ensure that Margin Disclosure Statements are being promptly delivered and acknowledges; he or she will also confirm that the Statement is posted on the Company's website.

In addition, the Company will, with a frequency of not less than once a calendar year, deliver the Margin Disclosure Statement or an abbreviated version of it to its margin customers. The initial disclosure at or prior to the opening of the account must be made in a separate document; however, subsequent annual disclosures may be provided to customers with other documentation, such as an account statement. The Margin Disclosure Statement, or abbreviated form, must be provided to existing non-institutional margin customers (customers of the Company prior to June 4, 1001, the effective date of the Rule) at the time of their next annual account statement, not later than January 31, 2002. A sample abbreviated disclosure statement is attached in the Forms section.

Under the terms of its clearing agreement, the Company's clearing firm is responsible for the delivery of the initial and annual disclosure statements to customers.

Customers wishing to open a portfolio margin account must meet certain criteria outlined in Consolidated FINRA Rule 4210(g) and the Company must meet eligibility and approval requirements in the Rule. The Company is required to present each such customer with a Portfolio Margining Risk Disclosure and must receive the customer's written acknowledgement of receipt. The designated Principal will ensure that Company procedures are established and followed with regard to this type of account. Customers wishing to open a day trading account and trade on margin must be approved according to the procedures described in the dedicated section herein.

Before recommending margin transactions to a customer, the Registered Representative should be satisfied that margin transactions are suitable for that customer. Each margin account and the applicable interest rate must be approved by the designated Principal.

If signed customer account agreements are not received from the customer within the prescribed time, the designated Principal should notify the Registered Representative who will then take steps to obtain the forms from the customer. If the forms are still not received, then the account should no longer be maintained on a margin basis. In such instances, only liquidating orders should be accepted and the account should pay off its debit balances and transact business only on a cash basis. If a Registered Representative effects a margin transaction in an account that has reverted to a "cash only" basis, or has not been approved for margin, the Registered Representative may no receive commissions for either the initial transaction or subsequent liquidating transactions as determined by the designated Principal.

The equity percentage in an account must be above 50% (unless otherwise approved).

Customer Relations

Regulation Best Interest and Form CRS

Form CRS

On June 5, 2019, the SEC adopted Form CRS (Customer/Client Relationship Summary) that broker-dealers must provide to their prospective retail clients.

Policy Requirements

Form CRS must explain the types of client/customer relationships and the services the firm offers, the fees, costs, conflicts of interest, and required standard of conduct associated with those relationships and services, and whether the firm and its financial professionals currently have any reportable legal or disciplinary history.

Form CRS must be delivered to clients and prospective clients either at the beginning of a relationship with the firm, following a material change to the details of Form CRS, or upon certain events, such as when the client re-engages for a new or different relationship or service with the firm. Under Exchange Act Rule 17a-14, a broker-dealer's Form CRS will also be filed electronically through WebCRD. In addition, it must also be delivered to all existing clients along with being posted to the firm's current website.

Procedures and Documentation

Our CCO will:

- Update the relationship summary and file it in accordance with Form CRS instructions within 30 days whenever any information in the relationship summary becomes materially inaccurate. The filing must include an exhibit highlighting the changes;
- Communicate any changes in the updated relationship summary to retail investors who are existing clients or customers within 60 days after the updates are required to be made and without charge;
- Deliver the amended relationship summaries highlighting the most recent changes or providing an additional disclosure showing revised text or summarizing the material changes as an exhibit to the unmarked amended relationship summary;
- Deliver the current Form CRS to each prospective client before a recommendation of account type, securities transaction, or a recommendation of investment strategy involving securities is made or before placing an order for a retail investor, whichever is earliest;
- Deliver the most recent relationship summary to a retail investor who is an existing client or customer before or at the time Brighton Securities Corp: (i) opens a new account that is different from the retail investor's existing account(s); (ii) recommends that the retail investor roll over assets from a retirement account into a new or existing account or investment; or (iii)

recommends or provides a new brokerage service that does not necessarily involve the opening of a new account and would not be held in an existing account; and
- Deliver the relationship summary within 30 days upon an investor's request.

Regulation Best Interest and Form CRS

Policy Requirements

On June 5, 2019, the SEC adopted Regulation Best Interest (Reg BI), which requires broker-dealers to act in their clients' best interests when making an investment recommendation by meeting four core obligations:

1. *Disclosure*. A broker-dealer must provide certain prescribed disclosures before or at the time of a recommendation regarding the investment and the relationship between the retail customer and the broker-dealer.
2. *Care*. A broker-dealer must exercise reasonable diligence, care, and skill in making the recommendation. The Care Obligation mirrors FINRA's Suitability Rule, with the caveat that under Reg BI, in addition to suitability, the obligation also considers whether the broker-dealer's standards avoid placing the financial interests of the broker-dealer ahead of the customer.
3. *Conflicts of Interest*. Establishing, maintaining, and enforcing policies and procedures reasonably designed to address conflicts of interest.
4. *Compliance*. Establishing, maintaining, and enforcing policies and procedures for the broker-dealer's Disclosure and Care Obligations.

Recommendation

Whether a recommendation is made that triggers Reg BI will be based on the facts and circumstances of the situation. The determination generally will be made based on whether the communication "could reasonably be viewed as a 'call to action'" to the customer, whether it "reasonably would influence an investor to trade a particular security or group of securities," and that "the more individually tailored the communication to a specific customer or targeted group, the greater the likelihood that the communication may be viewed as a recommendation."

Reg BI applies not only to the recommendation of a securities transaction itself, but also to investment strategies, which may include recommendations such as to invest in a bond ladder, to engage in day trading, to liquify home equity to invest, or to engage in margin investing. Recommendations as to the type of account, whether to roll over or transfer assets from an employer retirement plan to an IRA, or to take a plan distribution will also trigger Reg BI.

Retail Customer

The SEC has defined "retail customer" as "a natural person, or the legal representative of such natural person, who: (A) receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer; and (B) uses the recommendation primarily for personal, family, or household purposes."

The definition of “retail customer” does not exclude high-net worth natural persons and natural persons that are accredited investors.

Best Interest

Under Reg BI, broker-dealers will have an obligation to “act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer,” and may not put their financial interests ahead of the customer’s while making these recommendations.

Though the SEC did not define “best interests,” the Commission has pointed out that “best interests” pertains to a recommendation in the context of a client’s entire situation and applies only at the time of the recommendation itself. A broker-dealer does not need to find the one “best” product, evaluate all possible alternatives, or even focus on the lowest cost alone. In addition, brokers do not have to refuse a customer’s order if it’s contrary to the broker’s recommendation—the Care Obligation will not apply to self-directed or unsolicited transactions by a retail customer. Further, broker-dealers will be allowed to retain their existing conflicts of interest as long as they are disclosed to customers and the broker-dealer takes steps to mitigate conflicted incentives for their registered representatives.

Regulation Best Interest took effect on June 30, 2020.

Dual Registrants

According to the SEC, a dual registrant is an investment adviser only for advisory accounts. For any brokerage accounts and the overall relationship with the client, the dual registrant will be considered a broker and subject to Regulation Best Interest. However, the firm will only be subject to the Best Interest standard for a specific recommendation, and not with respect to the overall relationship with the client as an investment adviser.

For broker-dealers who are dually registered, and for associated persons who are either dually registered or, who are not dually registered but only offer broker-dealer services through a firm that is dually registered, the information contained in the Relationship Summary will not be sufficient to disclose their capacity in making a recommendation. Accordingly, dually registered associated persons and associated persons who are not dually registered but only offer broker-dealer services through a firm that is dually registered, must disclose whether they are acting (or only acting) as an associated person of a broker-dealer.

Exam Priorities

In March 2021, the SEC’s Division of Examinations released its exam priorities for the year. The Division will expand the scope of examinations to focus on assessing whether broker-dealers are making recommendations that they have a reasonable basis to believe are in customers’ best interests and evaluating broker-dealer processes for compliance and alterations made to product offerings.

The Division will also conduct enhanced transaction testing as part of these examinations, and will evaluate firm policies and procedures designed to meet additional elements of Regulation Best Interest, the recommendation of rollovers and alternatives considered, complex product recommendations, assessment of costs and reasonably available alternatives, how sales-based fees paid to broker-dealers and representatives impact recommendations, and policies and procedures regarding how broker-dealers identify and address conflicts of interest.

Form CRS

In addition to Regulation Best Interest, the SEC is also requiring a Form CRS (Customer/Client Relationship Summary) that broker-dealers must provide to their prospective retail clients. Form CRS must explain the types of client/customer relationships and the services the firm offers, the fees, costs, conflicts of interest, and required standard of conduct associated with those relationships and services, and whether the firm and its financial professionals currently have any reportable legal or disciplinary history.

Form CRS must be delivered to prospective clients either at the beginning of a relationship with the firm, following a material change to the details of Form CRS, or upon certain events, such as when the client re-engages for a new or different relationship or service with the firm. Under Exchange Act Rule 17a-14, a broker-dealer's Form CRS will also be filed electronically through WebCRD. In addition, it must also be delivered to all existing clients along with being posted to the firm's current website.

To help make Form CRS easier to compare between firms, the SEC has created five sections, along with certain language or questions to be answered in each section, that must be addressed: an Introduction, a description of Relationships & Services, a summary of Fees, Costs, Conflicts, and Standard of Conduct, Disciplinary History, and where to go for Additional Information.

Any broker-dealers that file an application or have an application pending on or after June 30, 2020 must file their relationship summary by no later than the date their registration becomes effective.

Procedures and Documentation

Our CCO, Senior Management, and other appropriate associated persons will oversee our Reg BI and Form CRS procedures and controls and ensure the following:

- Brighton Securities Corp will prohibit sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time with respect to Brighton Securities Corp's brokers;
- Avoid compensation thresholds that disproportionately increase compensation through incremental increases in sales;
- We will carefully evaluate and decline to offer products to customers when the conflicts associated with those products are too significant to be mitigated effectively;
- We will disclose any existing conflicts of interests and mitigate any conflicts of interest that create an incentive for our registered representatives to place the interest of the firm (or themselves) ahead of the customer;

- Prior to or at the time of a recommendation, we will reasonably disclose, in writing, all material facts about the scope and terms of the firm's relationship with the customer, including: the nature of the relationship, material fees and costs, the type and scope of services to be provided, whether or not account monitoring services will be provided, and any conflict of interest associated with the recommendation that might incline us to make a recommendation that is not disinterested;
- Brighton Securities Corp will review our structure, relationships, business lines, existing procedures, existing documents, and existing representatives to ensure compliance with Reg BI;
- For a retail customer's fees and costs, we must provide disclosure that the nature of the compensation may create conflicts of interest;
- Identify and mitigate any conflicts of interest associated with recommendations that create an incentive for a registered representative to place the interest of our firm or the individual ahead of the interest of the retail customer;
- Monitor recommendations that are: near compensation thresholds; near thresholds for firm recognition; involve higher compensating products, proprietary products or transactions in a principal capacity; or, involve the roll over or transfer of assets from one type of account to another or from one product class to another;
- For comparable products, we refrain from providing higher compensation, or providing other rewards, for the sale of proprietary products or products from providers with which we have entered into revenue-sharing agreements;
- Monitor the suitability of registered representatives' recommendations around key liquidity events in an investor's lifecycle where the impact of those recommendations may be particularly significant;
- Identify and disclose any material limitations placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations; prevent such limitations and associated conflicts of interest from causing the registered representative to make recommendations that place his or her interest ahead of the interest of the retail customer;
- Review existing disclosures to ensure compliance with Reg BI and create any necessary new disclosures;
- All individuals engaged in making investment recommendations and those who supervise them will receive training on properly complying with Reg BI, including ensuring that recommendations satisfy the care obligation;
- Our CCO will ensure that we undertake and document an annual review of our Reg BI policies and procedures, including a review of any violations uncovered during the past year. Based on the findings of this review, decisions may be made regarding the continuation of current policies and procedures, along with any disciplinary consequences of non-compliance;
- Documentation will be maintained regarding:
    - The conflicts of interest disclosure provided to each retail customer;
    - Records of the date that each relationship summary was provided to each retail investor, including any relationship summary that was provided before such retail investor opens an account, along with a copy of each relationship summary;
    - The training our registered representatives receive on Reg BI compliance;
    - Our CCO's annual review of the policies and procedures; and

    - Any instances of non-compliance and the remedial measures taken.
- Update the relationship summary and file it in accordance with Form CRS instructions within 30 days whenever any information in the relationship summary becomes materially inaccurate. The filing must include an exhibit highlighting the changes;
- Communicate any changes in the updated relationship summary to retail investors who are existing clients or customers within 60 days after the updates are required to be made and without charge;
- Deliver the amended relationship summaries highlighting the most recent changes or providing an additional disclosure showing revised text or summarizing the material changes as an exhibit to the unmarked amended relationship summary;
- Deliver the most recent relationship summary to a retail investor who is an existing client or customer before or at the time Brighton Securities Corp: (i) opens a new account that is different from the retail investor's existing account(s); (ii) recommends that the retail investor roll over assets from a retirement account into a new or existing account or investment; or (iii) recommends or provides a new brokerage service that does not necessarily involve the opening of a new account and would not be held in an existing account; and
- Deliver the relationship summary within 30 days upon an investor's request.

Arbitration

Customer Agreements

Policy Requirements

Among other things, Rule 2268 requires that the waiver of the customer's right to litigate disputes arising under the arbitration agreement is plainly disclosed, and that the language contained in the agreement may not in any manner limit, or contradict, any self-regulatory organization's rules.

Customer agreements containing pre-dispute arbitration clauses must have the clauses highlighted and include language disclosing the nature of arbitration in outline form.

Procedures and Documentation

Our CCO will review all pre-dispute clauses contained in any material we utilize to ensure that they comply with the requirements of FINRA Rule 2268 and Notice to Members 05-32.

Delivery and Acknowledgement of Pre-dispute Arbitration Clause

Procedures and Documentation

Our CCO ensures that procedures are in place to deliver copies of any agreement containing a pre-arbitration clause at the time the agreement is signed, or within 30 days of signing, and that the customer acknowledges receipt of the agreement either on the agreement, or on a separate document.

Our CCO ensures that, within 10-days of receipt of a customer request (or by the 30-day delivery requirement date if earlier), we provide the customer with a copy of any pre-dispute arbitration

agreement clause or agreement that the customer has signed, or inform the customer that we do not have a copy of the agreement as required by Rule 2268.

Non-Bifurcation Provision

Procedures and Documentation

Under FINRA Rule 12206, when requesting dismissal of a claim on eligibility grounds in a FINRA forum, the requesting party agrees that the party that filed the dismissal claim may withdraw all related claims without prejudice and may pursue all of the claims in court.

Our CCO will ensure that, when we seek to compel arbitration of claims filed in court, we agree to arbitrate all the claims contained in the complaint if the customer requests, even if some of the claims would otherwise be ineligible for arbitration under FINRA Rule 12206.

Our CCO and legal counsel will review all arbitration claims to ensure that we act in full compliance with FINRA Rule 12206 and maintain appropriate documentation for each such claim.

Non-Payment of Arbitration Awards

Policy Requirements

Under Article V, Section 4(b), of the By-Laws, FINRA retains jurisdiction to institute suspension proceedings against formerly associated persons, for two years after the entry of the award or settlement, for failing to pay an award or settlement. As written in Notice to Members 04-57, *"this is true regardless of when the arbitration or mediation claim was filed, as long as the failure to pay occurred after termination."*

Notice to Members 04-57 further states that this means *"a person cannot be employed even in a non-registered capacity if he or she is suspended for failing to pay an arbitration award or settlement."*

Procedures and Documentation

Our CCO will work with individuals who establish agendas and training materials for our Annual Compliance Meeting, our CE Training Plan, internal memoranda, face-to-face meetings or any other training efforts to ensure our personnel are aware that payment of arbitration awards is still required when they leave this or any other broker-dealer.

Payment of Awards

Policy Requirements

Rule 12904(j) of FINRA's Code of Arbitration Procedure states:

"All monetary awards shall be paid within thirty (30) days of receipt unless a motion to vacate has been filed with a court of competent jurisdiction."

Failure to comply in a timely manner may result in suspension proceedings against either the broker-dealer or the associated person.

In cases of arbitration awards not paid, the CEO will maintain documentation indicating

- The parties have agreed to installment payments of the amount awarded or have otherwise agreed to settle the action; or
- The award has been modified or vacated by a court; or
- A motion to vacate or modify the award is pending in a court; or
- This broker-dealer or the associated person has a bankruptcy petition pending in U.S. Bankruptcy Court pursuant to Title 11 of the U.S. Code (the Federal Bankruptcy Code) or the award in the action has been discharged by a U.S. Bankruptcy court.

Procedures and Documentation

Our FINOP must ensure our payment and compliance with any, and all, awards against this firm, or against an associated person.

When applicable, we must certify in writing to FINRA Dispute Resolution that we have paid or otherwise complied with all awards against us or an associated person.

Restrictions on Provisions Limiting Rights and Remedies

Procedures and Documentation

Our CCO must ensure that any pre-dispute arbitration agreements we utilize do not include any inappropriate conditions that would:

1. Limit or contradict the rules of any SRO;
2. Limit the ability of a party to file any claim in arbitration;
3. Limit the ability of a party to file any claim in court that could otherwise be filed in court under the rules of the forum(s) in which a claim may be filed under the agreement; or
4. Limit the ability of arbitrators to make any award.

Annual reviews of customer files undertaken or overseen by our CCO will include a review of all pre-dispute arbitration agreements to ensure that only pre-approved materials are utilized.

Stipulated Awards and Settlements

Policy Requirements

Notice to Members 04-43 indicated FINRA's concern regarding situations where claimants and respondents *"appear to be settling customer claims for monetary compensation to the claimant in return (at least in part) for a customer affidavit that absolves one or more of the respondents of*

responsibility for any alleged wrongdoing." Such affidavits are, from FINRA's point of view, *"inconsistent on their face with the initial claim and terms of the settlement."*

The Notice to Members also states that *"NASD believes that abusing NASD's dispute resolution system by negotiating settlements with customers in return for exculpatory affidavits that the member or associated person knows or should have known are false or misleading contravenes FINRA Rule 2010, which requires members and their associated persons, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade. Accordingly, members and associated persons who engaged in this conduct may be subject to disciplinary action by FINRA's Department of Enforcement."*

FINRA will, when advised by the parties of a request for court confirmation of an arbitration award containing expungement relief, require the party requesting a waiver under FINRA Rule 2080 to provide a copy of the claim and all settlement documents and affidavits.

Under Rule 2080, parties are required to name FINRA and serve FINRA with all appropriate documents. Upon request, FINRA may waive the parties' obligation to name FINRA as a party but will not waive its participation in the court confirmation proceeding unless and until FINRA staff has reviewed all appropriate documents and determined that the expungement relief is based on one or more of the standards in Rule 2080.

If FINRA decides not to waive the requirement to be named as a party in the court confirmation process, the party seeking expungement would then name FINRA as a party and FINRA would appear in court to oppose the expungement, with the court making the final decision whether to order expungement.

Procedures and Documentation

Our CCO ensures that we comply with the guidance given in Notice to Members 04-43.

If any such activity is found to have occurred, or is suspected, the individual undertaking the review will immediately notify our CCO who will undertake an investigation.

Our CCO must ensure that appropriate associated individuals are aware that when they submit affidavits in which the content is the product of a bargained-for consideration as opposed to the truth, they are subjecting themselves to the possibility of sanctions, including disciplinary action for violation of FINRA Rules and other penalties which may include possible criminal sanctions.

Uniform Submission Agreements

Policy Requirements

FINRA Rule 12302 requires that all parties to FINRA arbitrations submit an executed Submission Agreement agreeing to arbitrate under FINRA rules. A claimant's Submission Agreement is due at the time the Statement of Claim is filed. FINRA will not serve the claim until the Submission Agreement is

received. Respondents must serve an executed Submission Agreement at the time the answer to the Statement of Claim is due or served, whichever is earlier.

Procedures and Documentation

Our CCO ensures our compliance with FINRA Rule 12302.

Senior Management and Compliance, working together as necessary with legal counsel, will ensure that we submit the appropriate Submission Agreement in a timely manner when required.

Best Execution FINRA Guidance

Policy Requirements

From FINRA Regulatory Notice 15-46: *"Considering the increasingly automated market for equity securities and standardized options, and recent advances in trading technology and communications in the fixed income markets, FINRA is issuing this Notice to reiterate the best execution obligations that apply when firms receive, handle, route or execute customer orders in equities, options and fixed income securities. FINRA is also issuing this Notice to remind firms of their obligations, as previously articulated by the Securities and Exchange Commission (SEC) and FINRA, to regularly and rigorously examine execution quality likely to be obtained from the different markets trading a security."*

Procedures and Documentation

Our CCO, working with appropriate senior management, is responsible for developing, implementing, and reviewing our best execution efforts and procedures; implementing any needed changes based on a review; and ensuring that all appropriate individuals are trained in all our best execution efforts and procedures. Reviewing Regulatory Notice 15-46 and MSRB Rule G-18, MSRB's "Best Execution" Rule, is addressed separately herein.

Cold Calling/Telemarketing

Exemptions from the National Do-Not-Call Registry Requirements

Policy Requirements

FINRA has adopted the exceptions included in the rules of the FCC and FTC allowing sellers and telemarketers to make telephone solicitations to persons on the National Registry.

Established Business Relationship

The following relationships between the firm and a person are excluded from cold-calling prohibitions:

- If such person has made a financial transaction or has a securities position, a money balance, or account activity with the firm, or at a clearing firm that provides clearing services to the broker-dealer, within the previous 18 months preceding the date of the telemarketing call. The

definition of “account activity” is borrowed from FINRA Rule 2231, which is used to determine when a member or its clearing firm must send a customer account statement. “Time of day” restrictions **do not apply** to this exception.

- When a firm is a broker-dealer of record for the account of the person within the previous 18 months immediately preceding the date of the telemarketing call. The term “broker-dealer of record,” identified on a customer’s account application for accounts held directly at a mutual fund or variable insurance product issuer. The definition of “broker-dealer of record” is NOT contingent on the receipt of compensation. “Time of day” restrictions **do apply** to this exception.
- When a person has contacted the firm to inquire about a product or service offered by the firm within the three months immediately preceding the date of the telemarketing firm. “Time of day” restrictions **do apply** to this exception.

A person’s request to be placed on a firm-specific Do-Not-Call list TERMINATES the established business relationship exemption.

Nothing in FINRA Rule 3230 prohibits us from contacting a customer solely concerning the administration of his or her account; absent more, such calls do not constitute telephone solicitation or telemarketing.

Prior Written Consent

Calls may be made to persons who have provided a prior express invitation or permission specifically stating that the person agrees to be contacted by us; this agreement must also include the telephone number to which such calls may be placed.

Personal Relationship

Calls may be made by an associated person who has a personal relationship with the recipient. Personal relationship is defined as “any family member, friend or acquaintance of the telemarketer making the call.” In determining whether a telemarketer is a friend or acquaintance of the consumer, the FCC will look at, among other things, whether a reasonable consumer would expect a call from such a person because they have a close, or, at least, a firsthand relationship.

This exception applies SOLELY TO THE NATIONAL DO-NOT-CALL REGISTRY. If an individual with whom an associated person has a personal relationship has requested to be placed on the firm’s Do-Not-Call list, the associated person may not make a telephone solicitation to such person.

Safe Harbor Provision for National Do-Not-Call Registry Requirements

Our telemarketers will not be liable for a violation involving the national do-not-call registry that is the result of error if his or her routine business practice meets certain specified standards.

Procedures and Documentation

The CSO ensures that those individuals engaged in cold-calling (telemarketing) for whom he or she has oversight responsibility are aware of the limited exemptions from complying with the National "Do Not Call Registry" requirements.

To ensure proper utilization of this safe harbor, the designated principal will ensure that our routine business practice meets the following four standards:

1. We have established and implemented written procedures to comply with the national do-not-call rules. We will maintain copies of such procedures, with initials indicating review.
2. We have trained our personnel, including any entity assisting in our compliance, in procedures established pursuant to the national do-not-call rules. We will maintain documentation of such training.
3. We have maintained and recorded a list of telephone numbers that our telemarketers may not contact, which is easily accessible to all telemarketers, with indications, initialed and dated, that the list is current.
4. We employ a version of the national do-not-call registry obtained from the FTC no more than three months prior to the date any call is made. We will maintain records documenting this process in the files, indicating supervisor's review by initials and date.

Overview

FINRA Rule 3230 covers the SRO, Federal Trade Commission ("FTC") and Federal Communications Commission ("FCC") guidelines and restrictions on telemarketing solicitations(i.e., cold calls) and the rights of telephone consumers. Telemarketing solicitation is defined as *"the initiation of a telephone call or message for the purpose of encouraging the purchase or rental of, or investment in, property, goods or services, which is transmitted to any person."*

Affiliated Entities

An individual's request to be placed on our firm's do-not-call list does not apply to any affiliated entity UNLESS the requesting individual would reasonably expect the affiliated entity to be included given the identification of the caller and the product being advertised.

Required Procedures

When making cold-calls to solicit customers (including calls to wireless telephone numbers), registered personnel must ensure that they:

- Do not make cold calls before 8 a.m. or after 9 p.m. at the called party's location without prior consent.
- Provide the called party with the name of the caller, the name of the broker-dealer for which the call is made, and a telephone number/address for contacting the broker-dealer during normal business hours.
- Disclose in a clear and conspicuous manner that the purpose of the call is to solicit the purchase of securities or related services.

- Immediately place parties on a restricted or do-not-call list when a request is made that the party no longer wishes to receive cold calls.

Outsourced Telemarketing Services

Where this firm uses another entity to perform telemarketing services on our behalf, we remain responsible for ensuring compliance with FINRA Rule 3230.

Our CCO will maintain documentation evidencing our consideration as to whether the entity or person performing telemarketing services on our behalf must be appropriately registered or licensed.

Procedures and Documentation

The CSO is responsible for ensuring that all cold-calling (telemarketing) engaged in by the individuals under his or her direct supervision is in full compliance with all applicable rules, regulations, and requirements.

Do-Not-Call Lists

The CSO must ensure that those individuals have the most recently distributed do-not-call list which is made available by Compliance companywide and to all affiliates, branches, and subsidiaries.

The CSO must ensure that the utilized version of the national do-not-call registry list provided to all individuals engaged in cold-calling was obtained from the FTC no more than 31 days prior to the date any call is made.

As telemarketing scripts are included in FINRA's definition of sales literature, considered by the regulator as "comparable to a form letter delivered orally," no telemarketing scripts may be used unless they are approved by our Advertising Principal.

We maintain documentation including the dates, names, and CRD #s of individuals in violation of our cold-calling policies and procedures.

Monitoring of Our Cold-Calling Activities

- Employees are advised not to make any telephone calls from any of our offices before 8 a.m. or after 9 p.m. If an emergency requires such a call be made, a memo giving the telephone number called and the name of the individual called must be given (on the day the call was made) to our CCO. Telephone bills will be reviewed quarterly by our CCO or another specifically designated principal, evidenced by initials and dates of review, to determine whether all calls made from our offices before 8 a.m. or after 9 p.m. were disclosed, otherwise calls will be made to the number to determine that the placed call was not a cold-calling violation.
- Managers and supervisors are trained to "eavesdrop" on calls made by employees, to overhear and immediately correct any cold-calling violations. Personnel engaged in such eavesdropping must ensure that telemarketers/cold-callers are aware that their activities and language are being monitored.

- If we determine that cold-calling abuse is systemic (more than one or two individuals violating procedures), Compliance and Senior Management may implement a system by which in-and-out calls are recorded or decide to limit cold-calling activities.
- Our CCO will ensure that annually we undertake our cold-calling policies and procedures, including a review of any violations uncovered during the past year. Based on the findings of this review, decisions may be made regarding the continuation of current policies and procedures, implementing a taping system, or limiting cold-calling activities. We will maintain documentation evidencing this annual review.
- If we determine that tape recording is appropriate, we will review quarterly such recordings by our CCO and document the review. Cold-calling prohibitions may be instituted either for certain individuals or companywide.

COLD CALLING/TELEMARKETING:

Responsibility

The CSO is responsible for ensuring that no associated individual violates our policy prohibiting cold-calling (telemarketing) activities.

Procedure

The Company permits telephone solicitations (telemarketing) by its associated persons and requires personnel to adhere to the procedures herein. In addition to complying with FINRA Rule 3230 and MSRB Rule G-39, the Company must also comply with all applicable federal requirements under FTC regulations, and with Consolidated FINRA Rule 2010, which establishes that it is contrary to high standards of commercial honor and just and equitable principles of trade for members and their associated persons to engage in communications with customers that constitute threats, intimidation, the use of profane or obscene language or calling the person repeatedly on the telephone to annoy, abuse or harass the called party.

The Company requires its registered personnel to adhere to the following guidelines if and when conducting cold calling:

When conducting telemarketing, associated persons must abide by FINRA Rule 3230, FCC telemarketing rules, and Rule 2010, which establishes that it is contrary to high standards of commercial honor and just and equitable principles of trade for members and their associated persons to engage in communications with customers that constitute threats, intimidation, the use of profane or obscene language or calling the person repeatedly on the telephone to annoy, abuse or harass the called party.

Neither the Company nor any person associated with it shall initiate any telephone solicitation to:

- Any residence of a person before the hour of 8 a.m. or after 9 p.m. (local time at the called party's location), unless: the Company has an established business relationship with the person, as defined below; the Company has received that person's prior express invitation or permission, or the person called is a broker, dealer or municipal securities dealer;

- Any person on the Company's "Do Not Call" List, as described below (including those who have an existing business relationship with the Company); or
- Any person who has registered his or her telephone number on the FTC's national do-not-call registry, unless: the Company has an established business relationship with the recipient of the call; the Company has obtained the person's prior express invitation or permission (such permission must be evidenced by a signed, written agreement between the person and Company which states that the person agrees to be contacted by the Company and includes the telephone number to which the calls may be placed); or the associated person making the call has a personal relationship with the recipient of the call.

An established business relationship exists between the Company and a person if:

- the person has made a financial transaction or has a security position, a money balance, or account activity with the Company or its clearing firm within the previous 18 months immediately preceding the date of the telemarketing call;
- the Company is the broker-dealer of record for an account of the person within the previous 18 months immediately preceding the date of the telemarketing call; or
- the person has contacted the Company to inquire about a product or service it offers within the previous three months immediately preceding the date of the telemarketing call.

Registered Representatives and the Company must maintain a "Do Not Call" list. This list consists of persons and their telephone numbers who do not wish to receive telephone solicitations. Company personnel are prohibited from making telephone solicitations to anyone listed on the Do Not Call List, even if an existing business relationship exists. The Company must honor a request by a person to be placed on the Do Not Call List within 30 days of the request. MSRB Rule G-39 requires that this list be maintained permanently.

When making telemarketing calls, RR's must consult the current national do not call registry (a version no more than three months old at the time of calling). The Company must keep records to document its accessing of the national do not call registry.

All personnel engaged in telephone solicitation must be trained concerning the "Cold Calling" rules and the existence and maintenance of both the Company and national "Do Not Call" lists. The penalties for violating these rules include treble damages and FCC action against the violator.

When making an outbound telephone call to any person for the purpose of soliciting the purchase of securities or related services, associated persons must disclose promptly and in a clear and conspicuous manner to the called person the following information: the identity of the caller and the Company; the telephone number or address at which the caller may be contacted; and that the purpose of the call is to solicit the purchase of securities or related services.

Registered Representatives who engage in "cold calling" should be prepared to discuss their disciplinary history. FINRA public disclosure program now makes available to anyone who calls FINRA

"hot line" (800-289-9999) the full history of any judgments, federal or state securities actions, convictions and arbitrations available to any person who calls. In the light of this fact, it is appropriate for a Registered Representative to be open with any potential customer about his or her disciplinary history.

Communications with the Public

Advertising Regulation Electronic Files (AREF)

Policy Requirements

Advertising Regulation Electronic Files ("AREF") is a web-based application that enables FINRA member firms to file retail communications and correspondence with the public (as required under FINRA Rule 2210) for review by FINRA's Advertising Regulation Department ("Department"). In addition, we may use AREF to view, print, and save Department comment letters on communications filed for review. Use of the system is voluntary.

Procedures and Documentation

Our Advertising Principal will ensure that retail communications and correspondence with the public required to be submitted to FINRA are, in fact, submitted, in a timely manner.

FINRA Approval

Policy Requirements

Our CCO will ensure that all communications with the public, if required; are filed in a timely manner, either prior to use or within a specific time frame after use.

Procedures and Documentation

- All retail communications and some correspondence are required to be filed for a one-year period commencing on the date the firm's FINRA membership became effective, as reflected in the CRD system.
- After the first year of pre-filing, only the retail communications and correspondence outlined in Rule 2210 must be submitted. The Compliance Department will ensure that correspondence may not be utilized without his or her approval, indicated by initials and date.
- Our designated principal will ensure that all required materials are appropriately submitted to FINRA, either prior to use or within a certain time frame after first use, according to FINRA Rules 2210 and 2212 through 2216.
- We will maintain copies of all materials that have been approved by the designated principal.
- We will maintain copies of:
    - all retail communication and correspondences including those that are submitted to FINRA.
    - all materials awaiting FINRA comment before they are utilized.

- documentation of all changes made based on FINRA comments as attached revisions.

Independently Prepared Reprints

Procedures and Documentation

Our CCO, or another individual specifically designated as having responsibility for advertising and sales material compliance, will ensure that independently prepared reprints utilized by this broker-dealer as sales material are handled appropriately.

Principal approval is not required for advertisements, sales literature or independently prepared reprints if, at the time we intend to publish or distribute it:

- Another FINRA member firm has filed it with the regulator and has received a letter stating that it appears to be consistent with applicable standards;
- We have obtained a copy of the FINRA letter; and
- The sales piece has not been materially altered by us and will not be used in a manner inconsistent with the regulator's letter indicating that it is consistent with applicable standards.

On an ongoing basis, our CCO, or an appropriately designated individual, will review all independently prepared materials permitted to be utilized by us and all independently prepared materials permitted to be utilized during the past 12-month period to ensure that the requirements of FINRA Rule 2210 have been met. We will maintain documentation of this review.

Institutional Communications

Policy Requirements

FINRA Rule 2210 defines "Institutional Communication" as any written (including electronic) communication that is distributed or made available only to institutional investors, excluding a member's internal communications.

"Institutional investor" means any:

A. person described in Rule 4512(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 send a communication 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

Institutional Communications are exempt from FINRA Rule 2210 filing requirements.

Procedures and Documentation

Our CCO is responsible for ensuring that the materials deemed to be institutional communications meet the requirements under Rule 2210.

The designated principal must ensure that any materials falling under the FINRA Rule 2210 "institutional communications" definition is made available ONLY to institutions as defined in the Rule. We will maintain documentation indicating approval of material appropriate to be called institutional correspondence, evidenced by initials and date.

We may not consider any material as institutional correspondence: until it is first approved as such by the designated supervising principal.

Once we decide that a document is institutional correspondence, the designated principal will determine whether we will require an agreement or incorporate a disclaimer prohibiting redistribution to any persons who are not institutional investor.

Investment Companies Rankings in Retail Communications

Policy Requirements

For purposes of FINRA Rule 2212, the term "Ranking Entity" refers to any entity that provides general information about investment companies to the public, that is independent of the investment company and its affiliates and whose services are not procured by the investment company or any of its affiliates to assign the investment company a ranking.

Broker-dealers may not use investment company rankings in any retail communication other than (1) rankings created and published by Ranking Entities, or (2) rankings created by an investment company or an investment company affiliate but based on the performance measurements of a Ranking Entity. Rankings in retail communications also must conform to the following requirements:

- Disclosures pursuant to Rule 2212(c);
- Time Periods, Rule 2212(d);
- Categories, Rule 2212(e);
- Multiple Class/Two-Tier Funds, Rule 2212(f); and
- Investment Company Families, Rule 2212(g).

This Rule shall not apply to any reprint or excerpt of any article or report that is excluded from the FINRA Advertising Regulation Department filing requirements pursuant to Rule 2210(c)(7)(I).

Procedures and Documentation

Our CCO and all supervising principals are responsible for ensuring that any retail communications utilized by this firm which include investment company rankings comply fully with FINRA Rule 2212.

Quarterly, all retail communications which include investment company rankings will be reviewed by our CCO or an appropriately designated individual to ensure that they comply with Rule 2212.

Misleading Communications about Expertise

Procedures and Documentation

The Compliance Department will ensure that registered representatives do not use any unapproved communications with the public, including materials that misrepresent their investment acumen by using ghostwritten communication that misleads investors.

Our CCO will ensure that all registered representatives receive sufficient training regarding which material may be utilized (or is prohibited) to communicate with the public, and the consequences for failing to comply with our prohibitions.

Money Market Funds

Policy Requirements

Rule 482 of the Securities Act of 1933 requires that any advertisements for an investment company holding itself out to be a money market fund include the following statement:

"An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund."

The second sentence of the above may be omitted if the fund does not hold itself out as maintaining a stable net asset value.

Our Advertising Principal will ensure that all advertising and marketing materials we use regarding money market funds contain the appropriate disclosure.

Overview

Policy Requirements

- FINRA Rules 2210 and 2212 through 2216 govern Communications with the Public.
- Retail investor is any person other than an institutional investor, regardless of whether the person has an account with the broker-dealer.

Communications with the Public fall into three (3) categories:

1. **Retail Communications:** Any written (including electronic) communication that is distributed or made available to MORE than 25 retail investors within any 30 calendar-day period.

   Oversight requirements: "An appropriately qualified registered principal must approve each retail communication before the earlier of its use or filing with FINRA's Advertising Regulation Department."

2. **Correspondence:** Any written (including electronic) communication that is distributed or made available to FEWER than 25 retail investors within any 30 calendar-day period.

   Oversight requirements: While only specific correspondence (as outlined in FINRA Rule 2210) are required to be filed with FINRA's Advertising Regulation Department, "*All correspondence is subject to the supervision and review requirements of FINRA Rule 3110.*"

3. **Institutional Communications:** Any written (including electronic) communication that is distributed or made available ONLY to institutional investors, but does not include a firm's internal communications.

Processes and Documentation

Broker-dealers must establish written procedures for the review of institutional communications by an appropriately qualified registered principal. When such procedures do not require review of all institutional communications prior to first use or distribution, they must include provision for the education and training (evidencing such by maintaining appropriate documentation) of associated persons on the firm's institutional communications procedures.

Rule 2210 calls for certain specific disclosures in retail communications and in correspondence.

Public Appearances

Procedures and Documentation

"Public Appearances" are defined in FINRA Rule 2210.

Our CCO will ensure that when this firm sponsors or participates in a seminar, forum, radio or television interview, or otherwise engages in public appearances or speaking activities that are unscripted and do not constitute retail communications, institutional communications or correspondence ("public appearance"), persons associated with members meet the standards of Rule 2210(d)(1).

Our CCO, and all supervisory personnel, will ensure that when an associated person recommends a security in a public appearance, the associated person is aware that he or she must have a reasonable basis for the recommendation.

Any scripts, slides, handouts or other written (including electronic) materials used for public appearances are considered communications.

On August 16, 2019, FINRA amended Rule 2241 to add a new exception from the rule's quiet period requirements for the publication or distribution of research reports and research analysts' public appearances if the member has participated in the offering of the subject company's securities. Under this new exception, the quiet period requirements shall not apply to a research report or a public appearance following any offering of the securities of a covered investment fund that is the subject of a covered investment fund research report. Although not required by the FAIR Act or SEC rules, FINRA also eliminated quiet periods for public appearances concerning a covered investment fund.

Recommendations (FINRA Rule 2110)

Policy Requirements

FINRA Rule 2210 includes the following:

A. Retail communications that include a recommendation of securities must have a reasonable basis for the recommendation and must disclose, if applicable, the following:
    i. 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;
    ii. that the member 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
    iii. that the member was manager or co-manager of a public offering of any securities of the issuer whose securities are recommended within the past 12 months.
B. A member 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.
C. 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; however, 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:
    i. 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
    ii. 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."

Procedures and Documentation

Our CCO:

- will ensure that ALL affiliated personnel are given copies of, or access to, FINRA Regulatory Notices 12-29 and 13-03 to ensure their full understanding of the requirements under FINRA Rule 2110; and
- is responsible for ensuring that all individuals charged with creating, reviewing, approving, and disseminating correspondence fully understands all the potential implications of Rule 2110, Rule 2111, and other suitability rules.

Retail Brokerage Accounts and IRAs

Policy Requirements

From Regulatory Notice 13-23: *Many broker-dealers offer retail brokerage accounts and IRAs, including rollover services for investors who wish to transfer funds from existing qualified retirement plans. Firms frequently advertise features of their accounts in retail communications, including websites and social media, radio and television commercials, and print advertisements and brochures.*

Broker-dealers' marketing campaigns often emphasize that fees are not charged for their retail brokerage accounts and IRAs. Nevertheless, while certain types of fees may not be charged, others will be. For example, accounts offered by broker-dealers may be subject to fees for opening, maintaining or closing accounts. In addition, investment products will have their own associated costs such as brokerage commissions, management fees and other product-level expenses. Further, retail brokerage accounts and IRAs may also be subject to additional fees for ancillary services provided by the broker-dealer.

Procedures and Documentation

Our CCO will ensure that individuals who create and review Retail Communications are aware of all disclosure requirements required within such communications.

Retail Communications making such claims as "Free" or "No Fee," or which highlight that specific fees are not charged, may not separate that information from disclosures regarding other fees that may be charged; otherwise, they will be deemed misleading to our clients and will not be permitted. FINRA Rule 2210 requires that communications be fair and balanced, requiring a sound basis for evaluating the facts with respect to any product or service.

Retail Communication: Incoming and Outgoing

Policy Requirements

"Retail Communication" is defined as "Any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period."

"Retail investor" is defined as any person other than an institutional investor, regardless of whether the person has an account with a member.

Procedures and Documentation

Our CCO ensures that appropriate policies and procedures are in place for the handling of incoming and outgoing retail correspondence, including e-mail.

Our designated supervising principals ensure that all incoming and outgoing retail correspondence is handled appropriately and in compliance with regulatory issues as well as our internal policies and procedures.

An appropriate random sampling of all copies of e-mail will be reviewed. E-mails that raise concern will be addressed with the appropriate individual, and notes made on the e-mail will document the discussion, resolution and any remedial actions taken.

Instant Messages

Our firm PROHIBITS the use of instant messaging for any correspondence regarding our activities as a broker-dealer.

Should we at any time permit our registered employees to utilize instant messaging as a means of communicating with retail investors, policies and procedures guiding such use will be put into place PRIOR to allowing its use.

Supervision of this means of communication will be consistent with our policies and procedures for the supervision of all correspondence (i.e., mail by U.S. postal and courier services, internal and external e-mails, etc.). In addition, our CCO is responsible for confirming and documenting that any instant messaging software we would utilize would have the capability of (a) monitoring, (b) archiving, and (c) retrieving all message traffic. In addition, our CCO, in conjunction with all supervisory personnel, would be responsible for ensuring appropriate documented communication with all firm personnel that an instant messaging system has been approved for use and the policies that govern such communications are reviewed.

Notice to Members 03-33, “Clarification for Members Regarding Supervisory Obligations and Recordkeeping Requirements for Instant Messaging,” will be utilized as part of the information disseminated to personnel if at any time we change our policy on the use of instant messaging.

Incoming Correspondence

All incoming correspondence received, including facsimiles but excluding e-mail, directed to a registered representative and related to our investment banking or securities business must be reviewed by the designated supervising principal PRIOR to distribution.

Routine mail will be distributed directly to representatives; all mail for absent representatives will be reviewed by the individual's designated supervising principal and either be acted upon or held for return of the registered representative.

Any mail containing a complaint of any nature will be immediately dealt with by the Compliance Department and, if deemed appropriate at that time, to the individual named in the complaint. Our complaint policies and procedures will then take effect.

Any checks included with correspondence will immediately be logged onto our Checks Received/Disbursed log and disbursed appropriately.

We acknowledge that there may be instances when it is not possible to review all incoming mail PRIOR to distribution. In such instances, the following procedures are followed:

- Any mail not reviewed prior to distribution must immediately be copied by the person to whom it is addressed, with a copy sent to the individual's supervising principal, who will evidence such review by initials and date.
- Regular notifications will be made to our clients giving them our main address and phone number and advising them that they can contact Senior Management directly if the need arises, especially about complaints. Statements or other materials routinely sent to customers must include information on where to call with a complaint.

Branch Office Incoming Correspondence

Internal audits of branch locations will include a testing of all correspondence review, approval and retention policies and procedures. Branch reports will indicate all findings, as well as the name of the individual or individuals who undertook the review and the dates of such review.

Outgoing E-Mail

An appropriate random sampling of all outgoing e-mail will be reviewed, evidenced by initials and dates, and maintained in the files, or electronically with electronic indications of review. E-mails that raise concern will be addressed with the appropriate individual, with notes made on the e-mail about the discussion, resolution and any remedial actions taken.

Outgoing e-mails must contain:

- The firm's name and address;
- The name of the sender;
- Applicable department/branch location;
- The firm's phone number; and
- The e-mail address of the sender.

Where it is not possible to undertake PRIOR review of outgoing e-mails, our CCO must ensure that registered personnel receive appropriate training and monitoring, and that we test and retain

documentation to comply with FINRA Rule 3110 and with the guidelines outlined in Notice to Members 98-11.

Outgoing Communication

All outgoing communication, including facsimiles but excluding e-mail, prepared by a registered representative and related to our investment banking or securities business must be reviewed by the designated supervising principal PRIOR to mailing.

All outgoing communication will be copied, and the review will be evidenced by initials and dates, with copies to be maintained in monthly or quarterly outgoing correspondence files for the requisite six-year period.

When it is not possible to undertake PRIOR review of outgoing communication, our CCO will ensure that registered personnel receive appropriate training, and that we undertake monitoring and testing, and retain documentation in compliance with FINRA Rule 3110 and with the guidelines outlined in Notice to Members 98-11.

Branch Office Outgoing Communication

Internal audits of branch locations will include a testing of all communication review, approval and retention policies and procedures to ensure that they are appropriate and that all locations are fully compliant with applicable rules and with our internal policies and procedures. Branch reports will indicate the findings, as well as the name of the individual or individuals who undertook the review and the dates of such review.

Social Networking

Policy Requirements

Regulatory Notice 10-06 clarifies the responsibilities of firms to supervise the use of social networking sites to ensure that recommendations are suitable, and their customers are not misled.

Regulatory Notice 10-06 emphasizes that each firm must develop its own policies and procedures - in the context of its own business model and compliance and supervisory programs - designed to ensure that the firm and its personnel are complying with all applicable regulatory requirements when using social networking sites. Some technology providers have developed systems that are intended to enable firms to retain records of communications made through social networking sites. As the Notice states, however, "FINRA does not endorse any specific technology to keep such records, nor are we certain that adequate technology currently exists."

The definition of "public appearance" in FINRA Rule 2210 includes unscripted participation in an interactive electronic forum such as a chat room or online seminar. Rule 2210 does not require firms to have a registered principal approve in advance the extemporaneous remarks of personnel who participate in public appearances, UNLESS it falls within the definition of "retail correspondence."

However, these interactive electronic forums are subject to other supervisory requirements and to the content requirements of FINRA's communications rule.

Treatment of Blogs

The treatment of a blog under FINRA Rule 2210 depends on the blog's purposes.

Some blogs have consisted of static content posted by the blogger. FINRA considers static postings to constitute one or more categories under FINRA Rule 2210. If a firm or its registered representative sponsors such a blog, it must determine if prior principal approval is required for any such posting.

Examples of static content typically available through social networking sites include profile, background, or "wall" information. As with other Web-based communications such as banner advertisements, a registered principal of the firm must approve all static content on a page of a social networking site established by the firm or a registered representative before it is posted. Additionally, firms should review popular social media sites on a regular basis to identify if employees are using the media in a way not permitted by the firm's policies.

Blogs used to engage in real-time interactive communications are considered an interactive electronic forum that does not require prior principal approval, but does require supervision.

Social networking sites, such as Facebook, Twitter and LinkedIn, typically include both static content and interactive functions.

Procedures and Documentation

- Our CCO is responsible for seeing that all newly-registered personnel sign an attestation indicating their awareness of the fact that they may not utilize any social networking sites on behalf of this broker-dealer without first receiving written approval. On an annual basis, generally at our annual compliance meeting, an attestation will again be required, indicating that the individual continues to adhere to our policies and procedures.
- Our CCO will oversee our policy on granting permission to communicate, or to permit our associated persons to communicate, through social media sites, text messaging apps, and chat services.
- Our CCO will ensure that in instances where we or an associated person recommends a security through a social media site, suitability requirements (under FINRA Rules 2090 (Know Your Customer) and 2111 (Suitability) are adhered to.
- Our internal policy is to prohibit all interactive electronic communications that recommend a specific investment product and any link to such a recommendation. Any variances to this prohibition must have all content reviewed and approved in advance by an appropriate supervising principal.
- The content provisions of FINRA's communications rules apply to interactive electronic communications, which must be supervised (and monitored).

If deemed appropriate, we may adopt procedures that require principal review of some or all interactive electronic communications prior to use or may adopt various methods of post-use review, including sampling and lexicon-based search methodologies (as discussed in Regulatory Notice 07-59).

Our CCO is also responsible for overseeing policies and procedures for the review by a supervisor of incoming, outgoing, and internal electronic communications that are of a subject matter that requires review under FINRA rules and federal securities laws, including:

- FINRA Rule 2241, which requires that a firm's legal and compliance department be copied on communications between non-research and research departments concerning the content of a research report;
- FINRA Rule 4530, which requires the identification and reporting of customer complaints; and
- FINRA Rule 4515, which requires the identification and prior written approval of every order error and other account designation change.

Third-Party Posts

Our CCO will also ensure that "third-party posts" are appropriately reviewed since third-party content can be attributable to this broker-dealer if we have (1) involved ourselves in the preparation of the content, or (2) explicitly or implicitly endorsed or approved the content.

FINRA would consider such a third-party post to be a communication with the public by this firm or our personnel under 1) an "entanglement" theory if we or our personnel paid for or otherwise were involved with the preparation of the content prior to posting, or 2) the "adoption" theory if we or our personnel explicitly or implicitly endorses or approves the post after the content is posted.

We will obtain attestations from personnel at the commencement of employment with us and regularly thereafter that employees (i) have completed all of the required training on electronic messaging, (ii) have complied with all such requirements, and (iii) commit to do so in the future.

In addition, our CCO will ensure that our firm does not establish any links to third-party sites that the firm knows or has reason to know contains false or misleading content. Also, we will not include a link on our website if there are any red flags that indicate the linked site contains false or misleading content.

Similar to third-party posts, FINRA would consider the firm responsible under the communications rules for the content on a linked third-party site if the firm has adopted or has become entangled with its content.

Customer Agreements

Procedures and Documentation

All customer agreements that we are required to give clients (i.e., margin agreements, disclosure agreements regarding options, penny stocks, privacy disclosures, new account forms, as well as mutual

fund/variable product applications and subscription documents if these are used in lieu of new account forms, etc.) must contain language whereby the customer acknowledges receipt of the document.

Our CCO ensures that appropriate language appears on the agreement or in a separate document provided to all appropriate registered personnel, indicating that:

- The customer has received a copy of the document;
- The customer has read the document; and
- The customer understands the document.

Designated supervising principals must ensure that, at the time a new account is opened, the client receives and acknowledges receipt, in writing, of appropriate agreements. We will maintain documentation of this review of receipt of the acknowledgement, evidenced by initials and dates.

We ensure that all appropriate disclosures and attestations are contained in the files in our annual and other client account reviews. We will maintain documentation of all such reviews, including any deficiencies noted, and the steps taken to determine why such deficiency exists and corrective measures taken.

Customer Complaints

Appropriate Handling of Customer Complaints

Procedures and Documentation

Our CCO has overall responsibility for all customer complaints:

- All written complaints are immediately copied and sent to our CCO. If necessary, our CCO will also forward a copy of the complaint to Legal.
- Our CCO (and, if necessary, Legal) will determine whether to amend the individual's Form U4.
- A principal of the firm will acknowledge receipt of all written complaints in the form of a letter to the client or the client's designated representative.
- Our CCO will ensure that we have access to FINRA's Customer Complaint Reports, a Risk Monitoring Report available on FINRA's Report Center, at http://www.finra.org/reportcenter.
- Annually, our CCO will analyze all complaints we have filed under FINRA Rule 4530, by product - to assess whether there are any product-related trends, and by problem - to determine if problem-related trends need to be addressed internally.

Filing Requirements

Policy Requirements

FINRA Rule 4530 requires member firms to:

1. report to FINRA certain specified events and quarterly statistical and summary information regarding written customer complaints; and
2. file with FINRA copies of certain criminal actions, civil complaints, and arbitration claims.

Exception for Information Reported on the Form U4

To satisfy the Form U4 exception, firms are required to affirmatively indicate that the data reported on a Form U4 Disclosure Reporting Page (DRP) will also be used to satisfy its FINRA Rule 4530 reporting obligation. Specifically, FINRA enables filers to designate through checkboxes in the CRD system that the data reported on the specified Form U4 DRPs also be applied to satisfy the corresponding requirement under Rule 4530(a)(1): (1) Criminal; (2) Regulatory Action; (3) Civil Judicial; and (4) Customer Complaint/Arbitration/Civil Litigation.

The Form U4 exception will not apply to the reporting of quarterly statistical and summary.

Exception for FINRA Findings and Actions

For purposes of Rule 4530(a)(1)(A), (C), and (D), Supplementary Material .10 to Rule 4530 states that member firms are not required to report findings and actions by FINRA. This exception is generally consistent with the exception under Rule 4530(f) for arbitration claims filed in the FINRA Dispute Resolution forum.

Online Filings

Under FINRA Rule 4530(g) firms have the option of filing the documents required under Rule 4530(f) online via FINRA's Firm Gateway.

Procedures and Documentation

- At least quarterly, our CCO will require each registered person to review the list of events required to be reported under FINRA Rule 4530 and attest to the fact that either none are applicable, or to immediately disclose, those that are applicable.

Our CCO will review our complaint file monthly.

Information Disclosure to Customers

Policy Requirements

Under the SEC's books and records rule, Exchange Act Rule 17a-3, we must provide all customers with the address and telephone number of the department or individual within the firm to whom complaints should be directed.

Procedures and Documentation

Our CCO ensures that our customers receive appropriate notification regarding where they should direct complaints.

- Our CCO must ensure that a mechanism is in place (i.e., statement stuffer, comment on statements, individually at account opening, on confirms, etc.) whereby each customer receives the required information.
- We will review the documents we utilize annually to ensure that they contain the required disclosure.

Identity Theft Prevention: Safeguarding Confidential Customer Information

Policy Requirements

Regulation S-P (Privacy Rules) calls for policies and procedures that address the protection of customer information and records. However, additional issues surrounding possible identify theft are not covered under Regulation S-P. For instance, the fact that many individuals telecommute, work from their homes, or work while traveling, increases the possibility of identity theft through lost laptops or through access by unauthorized individuals. Wireless connections (Wi-Fi) are more easily intercepted than those required to tap into a physical wire. Remote access to corporate networks through Virtual Private Networks (VPNs) or other technology, while raising similar concerns, can more easily be addressed using firewalls, routers, filters and other means to guard against intrusion.

Procedures and Documentation

Our IT Manager must ensure that the risks and possible changes in policies and procedures are updated when a new technology is implemented anywhere within the firm, and understand what safeguards, such as encryption or biometric technology, can effectively be implemented to eliminate or minimize these risks.

In addition, the IT Manager must put measures in place for the ability to access client information from any third-parties, including CRM systems, in order to review, delete, or perform security assessments, as necessary.

Our IT Manager must also ensure that appropriate individuals are aware of the protective methods necessary when deciding whether to allow an associated person to use Wi-Fi or another type of technology.

Our IT Manager will oversee an audit, undertaken at least annually by appropriately knowledgeable individuals, designed to detect potential vulnerabilities in our systems and to ensure that our systems protect customer records and information from unauthorized access.

The National Institute of Standards and Technology's publication Electronic Authentication Guideline (available at http://csrc.nist.gov/publications/nistpubs/800-63/SP800-63V1_0_2.pdf) is a useful reference and distributed as guidance in how to assess the level of risk involved in the access to information and various levels of controls based on the risk.

Introducing Broker-Dealer Best Execution

Procedures and Documentation

Under FINRA Rule 5310, our CCO, working with other principals as appropriate, will make all reasonable efforts to identify instances, and deter future instances, in which best execution was not obtained.

As a fully-disclosed, introducing firm, we direct all order flow to a clearing firm, which ensures that all measures are taken to obtain best execution for the customer.

However, this does not relieve us from having best execution responsibilities. To this end, our CCO will ensure that the following are undertaken:

Quarterly Reviews

- We will conduct quarterly reviews of a material sample of transactions to determine whether best execution has been achieved. This review will either be done in-house, or by an outside vendor that we retain.
- We will verify best execution evidence (i.e., numerical, statistical, other) received from our clearing firm.

Annual Reviews

- We will review the monthly Best Execution Report Card" from our clearing firm. If the report card indicates negative results, we will contact the clearing firm for further investigation and, based on our findings, may recommend to Management that we consider changing clearing firms.
- We will conduct annual reviews of our clearing firm's Supervisory Policies & Procedures regarding best execution.
- We will document all materials received and/or reviewed from our clearing firm to determine the level of best execution for our clients, evidencing such review by initialing the document.

Privacy (Regulation S-P)

Annual Notice to Customers

Responsibility

Our CCO must ensure compliance with all regulations under Regulation S-P (privacy regulations).

Procedure

Effective November 13, 2000 the SEC adopted Regulation S-P covering Privacy of Customer Financial Information. Regulation S-P requires that Brighton Securities adopt, maintain and implement written supervisory procedures that comply with Regulation S-P and serve to protect the privacy of customer data. In summary, under the Regulation, Brighton Securities is required, with certain exceptions, to protect "Nonpublic Personal Information" ("NPI") defined as "Personally Identifiable Financial Information" ("PIFI"). With certain exceptions Brighton Securities may not disclose NPI of any customer to any "Nonaffiliated Third Party" ("NTP") without prior notice and consent by the customer.

The Regulation requires Brighton Securities to provide an Initial Privacy Notice to (a) every customer at all times and (b) every consumer where Brighton Securities intends to disclose that consumer's NPI to any NTP under any non-exempt circumstances. If the Company intends to share NPI, each recipient must also be provided with a "reasonable" time to "opt out" or not. Brighton Securities intends to comply in all respects with Regulation S-P and requires that its Registered Representatives and associated persons be familiar with and prepared to comply with all requirements under the Regulation. Oversight of such compliance will be the responsibility of the designated Principal specified in the table above.

BRIGHTON SECURITIES AS A POLICY DOES NOT DISCLOSE ANY CONSUMER OR CUSTOMER NON-PUBLIC INFORMATION TO NON-RELATED THIRD PARTIES OTHER THAN IN CONTROLLED CIRCUMSTANCES AS SPECIFICALLY ALLOWED BY REGULATION S-P.

California Financial Institution Privacy Act

Policy Requirements

Under the California Financial Information Privacy Act, Senate Bill 1 (SB 1), financial institutions, including broker-dealers doing business with California consumers, must provide consumers with an opportunity to opt-in or opt-out before nonpublic personal information is transferred from one firm to another.

Unless a statutory exception applies under SB 1, a broker-dealer may not disclose nonpublic personal information to, or with, any non-affiliated third-party without the explicit prior consent (opt-in) of the consumer to whom the information relates. This is a significant departure from the requirements of Regulation S-P which require only an opt-out when disclosures are made under similar circumstances.

Procedures and Documentation

Our CCO will ensure that any information-sharing practices in which we are currently engaged either meet the requirements of SB 1 or fall within an exemption. Our CCO will maintain documentation of the determination made regarding any exemption. If fall within an exemption, our CCO will also document our ongoing responsibilities under SB 1.

If required, our CCO will ensure that for all California clients we utilize a separate written form or statement obtaining a consumer's signed and dated consent to disclose nonpublic personal information to non-affiliated third parties.

This document will clearly and conspicuously explain that by consenting to these information practices we may share information with non-affiliates until the consumer revokes or modifies their consent. The document will also explain the procedures required for a consumer to revoke or modify his or her consent.

Disclosure Rule Compliance

Policy Requirements

Unless we claim an exemption from Regulation S-P, our CCO will ensure that we are in full compliance with the requirements under SEC Regulation S-P, the rule on privacy of consumer financial information, as required under the Gramm-Leach-Bliley Act.in full compliance with the requirements under SEC Regulation S-P, the rule on privacy of consumer financial information, as required under the Gramm-Leach-Bliley Act.

Procedures and Documentation

Under Regulation S-P, we are required to deliver initial and annual privacy notices describing our information sharing and collection practices; privacy policies and practices; and information sharing and collection practices.

If we share nonpublic personal information about consumers to nonaffiliated third parties, the initial notice must also contain an opt-out provision as required by Regulation S-P.

Where possible, the notice should be given in person to the individual when an account is opened.

When this is not possible, our CCO will mail out the notice no later than 48 hours after the account has been opened.

Our CCO must ensure that nonpublic personal information is shared with a non-affiliated third-party ONLY if the following four factors have been complied with:

- We have provided the required initial notice of our privacy policies;
- We have provided the requisite opt-out notice in clear and conspicuous language;
- We have delivered a reasonable opportunity to opt-out; and
- The investor does not opt-out.

If we do not currently disclose any nonpublic personal information, the opt-out provision may be included with the initial privacy notice, stating that the investor could opt-out from any possible future information-sharing practices.

However, if this is not done, our CCO must ensure that opt-out provisions are delivered to all customers, with sufficient time for them to opt-out, PRIOR to undertaking any information sharing which would trigger the requirements under Regulation S-P. Regulation S-P requires that customers be given 30 days to exercise their opt-out right.

Under the supervision of our CCO, we will undertake an annual review of customer files to ensure that we are adhering to all required aspects of Regulation S-P.

Disposal of Consumer Report Information

Policy Requirements

The SEC adopted amendments to Regulation S-P implementing the provision in Section 216 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act). This amended the Fair Credit Reporting Act

(FCRA), by requiring that *"any person that maintains or otherwise possesses consumer information, or any compilation of consumer information, derived from consumer reports for a business purpose, properly dispose of any such information or compilation."*

The FCRA defines a consumer report as *"any written, oral or other communication of any information by a consumer reporting agency bearing on a consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living which 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 (a) credit or insurance to be used primarily for personal, family or household purposes, (b) employment purposes or (c) any other purpose authorized under section 604."*

Further definitions, such as that of a "consumer reporting agency" as well as some exclusions from the definition, may be found in SEC Release Nos. 34-50781, IA-2332, IC-36685: Disposal of Consumer Report Information.

Exclusion - Information that does not identify particular consumers is not covered under this disposal rule. A person is deemed to be identified based on name and a variety of other personal identifiers such as, but not limited to, social security number, phone number, physical address, and email address.

Disposal means (a) the discarding or abandonment of consumer report information; or (b) the sale, donation, or transfer of any medium, including computer equipment, on which consumer report information is stored.

Procedures and Documentation

Our CCO will ensure that an appropriate program is put into place with policies and procedures guiding the disposal of consumer report information.

Our CCO will ensure that appropriate disposal is undertaken and that we adhere to the requirements under the Disposal of Consumer Report Information, Section 216 of the FACT Act by *"taking reasonable measures to protect against unauthorized access to or use of the information in connection with its disposal."*

Our CCO will determine the appropriate times and methods of disposal, taking into consideration the following procedures that might be followed:

- policies and procedures that require the burning, pulverizing, or shredding of papers containing consumer report information so that the information cannot practically be read or reconstructed; and
- destruction or erasure of electronic media containing consumer report information so that the information cannot practically be read or reconstructed.

After due diligence efforts are completed, we will enter into a contract with another party engaged in the business of record destruction to dispose of material, specifically identified as consumer report information, in a manner consistent with the disposal rule.

Firewall for Opt-Outs

Procedures and Documentation

Our IT Manager must ensure the physical safeguard of information and test our firewalls to be certain that appropriate procedures are in place to guarantee that no information is shared for customers who have opted-out.

Our IT Manager receives all opt-out notices and immediately takes steps to ensure that the customer's name is deleted from any information-sharing spreadsheet we maintain. Our IT Manager indicates the individual's inclusion in our safeguarding system by initialing the client's opt-out notice.

Quarterly, our CEO will review the databases we utilize for the sharing of information against a list of all customers who have indicated they do not want any information to be shared.

Monthly reviews will constitute a testing of our firewalls to determine if our system needs to be changed. Any changes to our procedures concerning this effort will be documented and retained in our privacy files.

Information Sharing Exceptions

Procedures and Documentation

We are permitted to share information with a nonaffiliated third-party without providing the consumer a right to opt-out if the third-party will perform services for us such as the marketing of this firm or our services under a joint agreement. When utilizing this exception, our CCO will ensure that we:

1. Disclose this information sharing arrangement in our privacy notices; and
2. Separately contract with, or amend, the existing contract with the third-party to require such party to maintain the confidentiality of the information and restrict its use as provided in the joint agreement. (e.g., an agreement with a depository institution to promote our products and services on the bank premises.)

We may disclose information about servicing or processing financial products or services requested by the consumer, or with maintaining or servicing a consumer account (i.e., utilization of a clearing firm).

If we intend to use the exception, our CCO will ensure that we make the correct distinctions between consumer and customer. Under Regulation S-P consumers need not receive either the initial or the annual notification unless we share information with third parties. A consumer is one who has no ongoing customer relationship with this firm - i.e., they may have made a one-time purchase or received a one-time service.

Safeguarding Security of Customer Information

Procedures and Documentation

Our IT Manager has developed standards and procedures to meet the goals of our information security policies based upon accepted security practices, including administrative, technical, and physical safeguards appropriate to our size and complexity and the nature and scope of our activities.

Our IT Manager is responsible for ensuring that our program is designed to:

- Ensure the security and confidentiality of customer information;
- Protect against any anticipated threats or hazards to the security or integrity of such information; and
- Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Specific Security Related Standards

- Access controls on customer information systems;
- Access restrictions to authorized individuals at physical locations containing customer information, such as buildings, computer facilities, and records storage (e.g., intruder detection devices, use of fire and burglar resistant storage devices);
- Encryption of electronic customer information, including while in-transit or stored on networks or systems to which unauthorized individuals may have access;
- Procedures designed to ensure that customer information system modifications are consistent with the firm's information security program;
- Background checks for employees with responsibilities for, or access to, customer information;
- Monitoring systems and procedures to detect actual and attempted attacks on or intrusions into customer information systems (e.g., data should be able to be audited for detection of loss and accidental or intentional manipulation);
- Response programs that specify actions to be taken when the firm suspects or detects that unauthorized individuals have gained access to customer information systems, including appropriate reports to regulatory and law enforcement agencies; and
- Measures to protect against destruction, loss, or damage of customer information due to potential environmental hazards, such as fire and water damage or technological failures (e.g., use of fire resistant storage facilities and vaults; backup and store off site key data to ensure proper recovery).

Any information systems security programs utilized by us incorporate appropriate system audits and monitoring, security of physical facilities and personnel, the use of commercial or in-house services such as networking services and contingency planning.

Physical Security Standards

- Client information shall not be left unattended in offices or conferences rooms unless these areas are secure.
- As a general practice, client records shall be stored in locked cabinets or desks when not in use and, in all cases, secured at the end of each business day.
- Visitors shall not be allowed to walk unescorted in areas where client information is accessible.

- Records or documents containing client information shall be destroyed or shredded before disposal.
- Our security policies and procedures of off-site record storage facilities will be periodically assessed (with notes maintained concerning any changes deemed appropriate, indicating when such changes were implemented).
- Protocols shall be established for locking down offices at the close of business and for access to offices after business hours.
- The effectiveness of physical access controls in each area, during both normal business hours and other times, shall be reviewed at least annually.

Electronic Records Security Standards

- Personal computers (PCs) with access to client information shall not be left unattended; screen savers/sleep mode will incorporate password protection.
- Password protections for access to network PCs, client network accounts, and e-mail user accounts are required and changed periodically. Users are trained to avoid easy-to-guess passwords, not to divulge their passwords, and not store passwords where others can access them.
- An appropriate schedule to back up electronic files is in place. Backup copies shall be tested to ensure that they are usable and are stored securely. Security measures have been implemented to prevent unauthorized access to backup copies.
- The firm's network monitors and logs access to files containing client information, restricting access to client information to those employees who require such access to service the client or conduct firm operations.
- Processes have been developed to manage: (1) requesting, establishing, and closing user accounts; (2) tracking users and their respective access authorizations.
- The need for the use of encryption technology will be considered if we elect to communicate client information electronically.
- Safeguard information where we may collect nonpublic personal information from persons visiting a website through log-in or such devices as "cookies."
- At least annually, we will review and assess security measures designed to prevent unauthorized access to client information residing on the firm's website.

Contingency and Disaster Security Standards - Business Continuity

Our Business Continuity Plan ("BCP") has encompassed the identification of mission- or business-critical functions that protect client information and resources that support critical functions.

Our physical and environmental controls anticipate contingencies or disasters and we use test-scenarios to develop response plans to a wide range of potential events.

Employee Security Standards

- Employees are required to sign appropriate confidentiality agreements as part of their employment agreements.

- We limit access to client information to those employees that require access to either provide client services or conduct firm operations.
- At least annually, employees are reminded of the prohibition of disclosing client information over the telephone, or in response to an e-mail, unless they have clearly identified the person to whom they are communicating as either the client, a fiduciary representative of the client, or a party that needs the information to complete a transaction for the client (i.e., a clearing firm or other appropriate third-party).
- We have developed contingency plans for dealing with both friendly and unfriendly terminations to ensure that access to client information is discontinued as soon as possible. This includes, but is not necessarily limited to, removal of access privileges, computer accounts, control of keys, and return of firm property.

Risk Assessment

Senior Management is responsible for taking reasonable and prudent measures to:

- Identify foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration or destruction of client information or client information systems;
- Assess the likelihood and potential damage of these threats, taking into consideration the sensitivity of client information;
- Assess the adequacy of policies, procedures, client information systems, and other arrangements in place to control risks and, when deficiencies are detected, recommend steps to management to correct such deficiencies; and
- Maintain appropriate books and records reflecting all the above.

Testing

Our information program is tested annually by an independent third-party or an internal auditor to ensure controls, systems and procedures are operating properly.

Testing should verify that appropriate monitoring, evaluation and adjustments have been undertaken to our information security program considering any relevant changes in technology, the sensitivity of our customer information, the functioning of mission-critical systems and processes, internal or external threats to information, and our own changing business arrangements, such as outsourcing arrangements and changes to customer information systems. We may also choose to include key vendors in our BCP tests and document the results from these tests.

Service Provider Arrangements

For third-parties with which the firm shares client information or which have access to such information, we will:

- Exercise appropriate due diligence in selecting service providers and make inquiry as to their security policies and procedures;
- Require, when feasible, service providers by contract to implement appropriate measures designed to meet the objectives of our information security policies;

- Ensure measures are put in place for the ability to access client information from any third-parties, including CRM systems, in order to review, delete, or perform security assessments, as necessary; and
- Where indicated by a risk assessment, monitor service providers to confirm that they have not shared or reused client information in violation of privacy rules.

Website Postings

Procedures and Documentation

Our CCO must determine whether to provide notice of our privacy policies on our existing or future website.

We will continuously post the current notice of our privacy policies and practices in a clear and conspicuous manner on the website. Such notice must call attention to the nature and significance of the information.

A customer who has agreed to accept notices at our website will receive the actual notice.

Securities Investor Protection Corporation (SIPC)

Advertising/Office Signage

Policy Requirements

Our CCO must ensure that we utilize appropriate SIPC office signage and that we comply with all SIPC issues related to advertisements.

Designated principals responsible for overseeing off-site locations are individually responsible for ensuring that the office signage as supplied to them by Compliance is appropriately displayed.

In addition to displaying evidence of SIPC membership in our place of business where it is clearly visible to any customers entering any one of our offices, we will include the statement "Member SIPC" in certain advertisements.

As a SIPC member we may use either of the following statements.

- "Member of SIPC, which protects securities customers of its members up to $500,000 (including $100,000 for claims for cash). Explanatory brochure available upon request or at www.sipc.org”; or
- "Member of SIPC. Securities in your account protected up to $500,000. For details, please see www.sipc.org.”

In both cases, we may omit the words "Member of SIPC" if the official explanatory statement is used in conjunction with the official SIPC symbol.

No other language or SIPC references are permitted beyond the above.

Procedures and Documentation

Annually, we will review or audit all locations requiring display of SIPC signage. We will maintain documentation of these reviews in reports.

The principal responsible for ensuring that all advertising is approved by an appropriate principal prior to use must consider any SIPC disclosures we utilize when deciding whether to approve a piece of sales material.

Information Disclosure to Customers

Procedures and Documentation

Our CCO must ensure that we comply with FINRA Rule 2266.

Supervising principals will ensure that at the time of opening a new customer account, the customer is given documentation of our SIPC membership, indicating that the customer may obtain information about SIPC by calling SIPC at 202-371-8300, or by going to the SIPC website (www.sipc.org).

Annually, our CCO will:

- Review customer files to ensure that the required SIPC information has been given to clients upon account opening; and
- Provide this same information to all customers.

Assignment of SIPC Disclosure Requirement to Our Clearing Firm

If we determine that our clearing firm will send the required information to our clients, both at the time the account is opened and annually thereafter, such assignment of responsibility must be made, in writing, either through an amendment to the clearing agreement or in any other manner.

SIPC Membership Requirements

Policy Requirements

As a SIPC member, we must maintain our membership in good standing by paying annual member assessment fees.

- The SIPC assessment effective January 1, 2019 will be .0015 of Net Operating Revenues.
- SIPC-6 (First Half General Assessment Payment Form): due with payment of the assessment no later than 30 days after the end of the first half of the firm's FYE.
- SIPC-7 (General Assessment Reconciliation): due 60 days after FYE, with payment of assessment balance due.

Procedures and Documentation

Our FINOP will ensure that we pay all SIPC fees in a timely manner and ascertain which method of payment is currently required by SIPC. We will maintain documentation of payments and notes regarding which method of payment is currently utilized by SIPC in the files.

In addition, our FINOP is responsible for working with our PCAOB accounting firm to ensure compliance with SEC Rule 17a-5(e)(4), which calls for, under certain circumstances, a supplemental report to be included with our annual audited financials.

Senior Investors

Diminished Capacity and Suspected Financial Abuse of Seniors

Policy Requirements

Regulators and industry groups have determined that seniors are more likely to be the target of financial exploitation and are more vulnerable to losing money from such practices, especially in the later years of retirement, due to diminished physical and mental capabilities and the pressure for additional money as their savings diminish.

The SEC and self-regulatory organizations have undertaken several initiatives in recent years on the financial exploitation of seniors, including best practices and regulations to deal with the issue. Notable examples include a series of reports jointly issued by the SEC OCIE (Office of Compliance Inspections and Examinations), FINRA and NASAA (North American Securities Administrators Association) detailing steps firms can take to strengthen their policies and procedures to serve investors as they approach or enter retirement. The studies focused on three areas: active investor education and outreach to seniors and those nearing retirement age; targeted examinations to detect abusive sales tactics aimed at seniors; and aggressive enforcement of securities laws in cases of fraud against seniors.

FINRA Rules on the Financial Exploitation of Senior Investors

On March 30, 2017, FINRA received SEC approval on its new Rule 2165 and amendments to FINRA Rule 4512 which address the financial exploitation of senior investors and other specified adults. Effective February 5, 2018, the rules prescribe two measures to protect investors. First, firms will be required to make a reasonable effort to obtain the name and contact information for a "trusted contact person" for senior customers. Second, firms will be permitted to place a temporary hold on a disbursement of funds or securities when there is reasonable belief of financial exploitation.

"Specified adults" are defined as persons over 65 as well as persons 18 and older who a member reasonably believes have a mental or physical impairment that renders them unable to protect his or her own interests.

Signs of diminished capacity may include:

- The client appears unable to process simple concepts;
- The client appears to have memory loss;

- The client appears to have difficulty speaking or communicating;
- The client appears unable to appreciate the consequences of decisions;
- The client makes decisions that are inconsistent with his or her current long-term goals or commitments;
- The client's behavior is erratic;
- The client refuses to follow appropriate investment advice, even when the advice is consistent with previously-stated investment objectives;
- The client appears to be concerned or confused about missing funds in his or her account;
- The client is not aware of, or does not understand, recently completed financial transactions;
- The client appears to be disoriented with surroundings or social setting; or
- The client appears uncharacteristically unkempt or forgetful.

Signs of elder financial abuse may include:

- The client gives a power of attorney to someone that appears inappropriate;
- Indications that the client does not have control over or access to his/her money;
- The client's mailing address has been changed to an unfamiliar and unexplained address;
- Inability of the investment professional to speak directly to the client;
- The client appears to be suddenly isolated from friends and family;
- There is a sudden, unexplained or unusual change in the client's transaction patterns;
- There are unusual and unexplained disbursements made in a client's account; or
- The sudden appearance of a new individual involved in the client's financial affairs.

Trusted Contact Person – Amendments to Rule 4512

The amendments to Rule 4512 require members to make reasonable efforts to obtain the name of and contact information for a trusted person upon the opening of or when updating information on a non-institutional customer account. The amendments do not, however, prohibit members from opening and maintaining an account if a customer fails to identify a trusted contact person. Furthermore, the customer must be informed in writing that the member or an associated person is authorized to contact the trusted person and disclose information about the customer's account.

The trusted contact person is intended to be a resource for firms in handling customer accounts, protecting assets and responding to possible financial exploitation of vulnerable investors. A trusted person may be contacted in cases where the customer cannot be reached; the customer is suffering from physical limitations or mental diminished capacities; or where possible financial exploitation of a customer may lead to the placement of a temporary hold on disbursement The trusted contact person must be notified if the member has placed a temporary hold on disbursements from the customer account, unless the member believes the trusted person is involved in the exploitation of the investor.

Temporary Hold on Disbursement of Funds or Securities

FINRA Rule 2165 "Financial Exploitation of Specified Adults," allows, but does not require a member to place a temporary hold on a disbursement of funds or securities from the account of a vulnerable adult if the member reasonably believes that financial exploitation of the specified adult has occurred, is

occurring or will be attempted. In such cases, the member has up to 15 days to initiate an internal review of the facts and circumstances of the possible financial exploitation. If needed, the rule permits members to extend the temporary hold for an additional 10 business days following an initial review. All documentation from the request through the disposition of the hold are to be maintained.

Members that anticipate using a temporary hold are required to establish and maintain written supervisory procedures, designation of persons authorized to invoke Rule 2165, retain records in compliance with the rule, and to institute training policies to implement the Rule.

The new rule provides firms and their associated persons with a safe harbor from FINRA Rules 2010, 2150 and 11870 when members place a temporary hold where there is a reasonable belief of financial exploitation while allowing firms to investigate the matter, and reach out to the customer, the trusted contact and, when appropriate, law enforcement and/or adult protective services.

The Senior Safe Act

Realizing that senior financial abuse is an escalating problem, lawmakers in Congress passed bipartisan legislation aimed at curbing it and protecting potential victims, known as the Senior Safe Act, on May 24, 2018. The Act, should a firm choose to administer it, will grant immunity to individuals and their firms from any civil or administrative proceedings that may arise from disclosing any suspected exploitation of a senior citizen, defined as age 65 and older, to a regulatory agency.

In order for immunity to be granted, the firm must administer the entire Senior Safe Act program. The firm, or a third party selected by the firm, must provide training to each officer or employee who: a) served as a supervisor or in a compliance or legal function; b) may come into contact with a senior client as a regular part of the professional duties of the individual; or c) may review or approve the financial documents, records, or transactions of a senior client in connection with providing financial services to that client. This training should occur as soon as reasonably practicable and no later than one year after any relevant individual becomes employed with the firm. An employee who received training and served as a supervisor or in a compliance or legal function will not be held liable for disclosing suspected exploitation as long as the disclosure was made in good faith and with reasonable care. Similarly, the firm will also not be held liable if the employee meets the Senior Safe Act's requirements.

The procedures below address industry best practices regarding the Senior Safe Act as well as FINRA rules.

2020 OCIE Examination Priorities

In January 2020, OCIE issued its 2020 Examination Priorities, in which OCIE stated it will once again emphasize the protection of retail investors, particularly seniors and those saving for retirement. OCIE plans to prioritize the examinations of investment advisers, broker-dealers, and dually registered firms, focusing on recommendations and advice made by entities and individuals targeting retirement communities.

Procedures and Documentation

Lori Alberts and firm principals are responsible for the establishment, implementation and monitoring of the firm's policies and procedures regarding seniors, and for ensuring the firm's compliance with relevant state and national regulations. However, it is the responsibility of all firm personnel to comply with its policies and procedures regarding seniors. Lori Alberts is also responsible for providing training to all associated persons about implementing the firm's policies and procedures for the identification, escalation and reporting of matters relating to the financial exploitation of seniors. In addition, Lori Alberts will identify by name or title of those within the firm that are authorized to place, terminate or extend a temporary hold on behalf of the firm.

Our CCO will work with Senior Management and, where appropriate, legal counsel, in instances where financial abuse or diminished capacity is suspected.

- Upon opening an account or when updating account information, we will make reasonable efforts to obtain the name and contact information of a trusted contact person.
- Our account opening procedures will include a disclosure in writing or electronically to the customer that the firm is authorized to contact the trusted contact person to disclose:
    - information about the customer's account to address possible financial exploitation,
    - to confirm the specifics of the customer's current:
        - contact information,
        - health status, or
        - the identity of a legal guardian, executor, trustee or holder of a power of attorney
- The firm may, but is not required to, notify the trusted contact person that he or she has been named as such for a particular account.
- The firm may place a temporary hold on a request to disburse funds or securities. If a temporary hold is placed, the firm will:
    - Work with all parties to ensure the hold is placed.
    - Immediately initiate an internal review of the facts that caused the firm or registered representative to believe that financial exploitation of the customer has occurred, will occur or, has or will be attempted.
    - Within two business days, the firm will provide notification of the hold and the reason for the hold to the trusted contact person (unless there is reason to believe this person is involved in the financial exploitation) as well as all parties authorized to transact business on the particular account including the customer. All records of this notification need to be retained. (Mailing a letter, sending an email or placing a telephone call and leaving a message if necessary are considered appropriate notification methods).
    - Ensure that the temporary hold expires not later than 15 business days after the date that the firm first placed the hold unless the hold is terminated or extended by an order of a state regulator or agency or court.
    - If the internal review warrants, an additional 10 business day hold may be placed.
    - Retain records related to a temporary hold on disbursement, including information on the reason for belief that financial exploitation has occurred, is occurring, has been attempted or will be attempted that underlay the decision to place a temporary hold on a disbursement.

- The CCO and senior management will review on a regular basis the adequacy of existing policies and procedures to ensure the firm's policies meet our regulatory obligations for seniors, and that they incorporate investors' age-related issues.
- Designate a person to monitor activities in accounts of seniors for possible financial exploitation.
- Institute training of firm representatives on senior specific issues and how the firm addresses these issues.
- Designate person(s) – such as branch manager, legal or compliance department officer -- to which professionals should escalate possible financial exploitation or diminished capacity matters.
- Review and establish guidelines for the appropriateness and suitability of products and securities sold to senior investors, with an emphasis on structured and annuity products.

Our firm, seeking immunity from suit under the Senior Safe Act (S.2155 Section 303), will also:

- Implement a training program that will instruct employees on how to identify and report suspected exploitation internally, and, as appropriate, to government officials or law enforcement.
- The training will include:
    - common signs that indicate financial exploitation of a senior client,
    - discuss the need to protect the privacy and respect the integrity of each individual customer of the firm, and
    - appropriateness to the job responsibilities of the individuals attending the training.

Required Records to Maintain:

The following records will be maintained and readily available for FINRA:

- The requests for disbursement that may constitute financial exploitation and the resulting temporary hold.
- The findings of the reasonable belief that financial exploitation has occurred, will occur, has been attempted or will be attempted.
- The name and title of the associated person that authorized the temporary hold on the disbursement request.
- Notifications to the relevant parties of the temporary hold.
- The internal review of the facts supporting the belief of the financial exploitation.
- Each individual employed by the firm who has completed the training necessary for immunity under the Senior Safe Act, along with the content of the training.

We will undertake a semi-annual review of senior investor activity to discern any red flags or troublesome trends. We will maintain documentation of all such reviews, indicating dates of such reviews, the names and titles of individuals conducting such reviews, the scope of such reviews and any findings.

In instances where we may be conducting an investigation into possible diminished capacity, we will take appropriate steps that may include restricting or limiting the account, contacting appropriate state agencies or authorities, contacting family members, etc.

High-Pressure Sales Seminars Aimed at Seniors

Policy Requirements

FINRA Rule 2210 prohibits firms and registered representatives from making false, exaggerated, unwarranted, promissory 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. Firms therefore must have adequate supervisory procedures in place to ensure that their registered representatives do not violate this requirement. As with all supervisory procedures, these procedures should be written, clearly communicated to employees, and effectively enforced. The procedures should also indicate how approved designations may be used.

Procedures and Documentation

Our CCO will work with designated supervising principals, sales managers and other appropriate personnel, to ensure their full understanding that disciplinary action will be taken if those at our firm engage in any inappropriate, high pressure or misleading seminars aimed at seniors.

The CCO must pre-approve any seminars in writing. Our CCO will maintain documentation of all scripts, handouts, dates, names of individuals conducting seminars to be attended by seniors, and any other relevant material.

Our CCO will review handouts, attendee lists, and all presentation materials.

Our CCO will also ensure that important issues surrounding senior investors are discussed at our Annual Compliance Meeting.

Senior Designations and Credentials

In Regulatory Notice 07-43, FINRA stated its concern about the proliferation of professional designations, particularly those that suggest an expertise in retirement planning or financial services for seniors, such as “certified senior adviser,” “senior specialist,” “retirement specialist,” or “certified financial gerontologist.” Regardless of how such titles are granted, seniors may be led to believe that these individuals are particularly qualified to assist them based on such designations. A recent FINRA Investor Education Foundation-sponsored survey found that a quarter of senior investors surveyed were told by an investment professional that the investment professional was specially accredited to advise them on senior financial issues, and a half of those investors were more likely to listen to the professional’s advice because of the special designation.

FINRA Rule 2210 prohibits firms and registered representatives 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. Firms therefore must have adequate supervisory procedures in place to ensure that their registered representatives do not violate this requirement. As

with all supervisory procedures, these procedures should be written, clearly communicated to employees, and effectively enforced. The procedures should also indicate how approved designations may be used.

Procedures and Documentation

We permit the use of titles or designations that convey an expertise in senior investments or retirement planning ONLY where such expertise actually exists. Our CCO must ensure that we do not violate FINRA Rules 2010 and 2210, and possibly the antifraud provisions of the federal securities laws by permitting such designations where specific expertise does not exist. Our CCO will also ensure that where such designations are permitted, we do not violate a state prohibition or restriction on the use of senior designations.

As we do permit certain qualified associated personnel to utilize designations that include the words "senior," "retirement," or other titles implying expertise in dealing with senior investors, our CCO maintains a list of all such approved individuals. Our CCO requires written documentation concerning curriculum, examinations and continuing education components that validate the designations, prior to permitting the use of such designations.

Our CCO will review the database maintained by FINRA of such designations and the qualifications, if any, that are needed to obtain them (https://www.finra.org/investors/professional-designations), with the understanding that FINRA does not approve or endorse any professional designation and maintains the list solely to assist in the evaluation of the listed designations.

Suitability of Products and Services

Policy Requirements

FINRA released Regulatory Notice 07-43 to remind firms that policies and procedures should be in place to address special issues that are common to many senior investors. The Notice also highlights a number of best practices that some firms have adopted to better serve these customers.

The number of Americans who are at, or nearing, retirement age is growing at an unprecedented pace. The United States population aged 65 years and older is expected to double in size within the next 25 years. By 2030, almost 1 out of every 5 Americans - approximately 72 million people - will be 65 years old or older. Those who are 85 years old and older are now in the fastest-growing segment of the U.S. population. Moreover, fewer and fewer retirees and pre-retirees can rely on traditional corporate pension plans to provide for a meaningful portion of retirement needs. Financial decisions made by those who are nearing retirement are more important than ever before.

Notice 07-43 states, *"FINRA does not have special rules for senior customers. Firms owe all their customers the same obligations and duties. However, in executing those duties, age and life stage (whether pre-retired, semi-retired or retired) can be important factors, and firms should make sure that the procedures they have in place take these considerations into account where appropriate. Two areas*

of particular concern to FINRA are the suitability of recommendations to, and communications aimed at, older investors."

Procedures and Documentation

Our CCO must ensure that all registered personnel receive appropriate training regarding special concerns that should be taken into account when servicing senior investors.

This training will include issues such as liquidity and the fact that seniors and retirees may have less tolerance for certain types of risk than other investors. For example, retirees living solely on fixed incomes may be more vulnerable to inflation risk than those who are still in the workforce, depending on the number of years those retirees are likely to rely on fixed incomes. Likewise, investors whose investment time horizons afford less time or opportunity to recover investment losses may be disproportionately affected by market fluctuations. Associated personnel will be advised that over-reliance on net worth is particularly problematic where an investor meets the accredited investor standard based largely upon home values, which may represent the largest asset of many senior investors.

While not all seniors are, or should be, risk-adverse, and while no particular product, per se, is unsuitable for older investors, certain products or strategies pose risks that may be unsuitable for any seniors because of time horizon considerations, liquidity, and volatility or inflation risk.

Our CCO will maintain documentation relating to all training given in this area, including dates, agendas, names and CRD #s of those who received the training and any other applicable information.

Such training will also cover, but will not necessarily be limited to, the following

- Asking either at account opening, or at a later point, whether the customer has executed a durable power of attorney. Some firms report that it is easier to have conversations with their customers about such sensitive issues as a matter of routine.
- Asking either at account opening, or at a later time, whether the customer would like to designate a secondary or emergency contact for the account whom the firm could contact if it could not contact the customer or had concerns about the customer's whereabouts or health. To avoid violating Regulation S-P, firms would have to clearly disclose to the customer the conditions under which the information would be used, and the customer would have the right to withdraw consent at any time.
- Confirming of any changes in beneficiaries, powers of attorney, or trustees in an account, with the customer and requiring his/her signature.
- Facilitating the transition of a senior customer from actively employed to a retired status by communicating with the client to setup an updated investment profile.
- Communicating at least quarterly with the customer by phone, mail or email and making any necessary account updates.
- Asking the customer if he or she would like to invite a friend or family member to accompany the customer to appointments at the firm.

- Informing the customer where appropriate that, in the firm's view, a particular unsolicited trade is not suitable for the customer.
- Working with the beneficiaries, trustee, or executor on the next steps to take upon the death of the customer, which could include transitioning the current account to a new account, liquidating the current account, or transferring assets to the appropriate parties.
- Reminding registered representatives that it is important when dealing with customers, particularly seniors, to base recommendations on current information.
- Ensuring that all requirements under FINRA Rules 2090 (Know Your Customer) and 2111 (Suitability), along with Regulation Best Interest, have been met before any investment recommendations are made.

On an ongoing basis, our CCO will ensure that a review is taken of all senior accounts -- that is for those individuals over the age of 65 -- unless Senior Management, working with our CCO, determines that the defining age should be changed.

This review will ensure that the following type of information has been captured and taken into account when undertaking transactions on behalf of these accounts.

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

Annually, our review of senior-related issues will focus on transactions involving products that have withdrawal penalties or otherwise lack liquidity, such as deferred variable annuities, equity indexed annuities, some real estate investments and limited partnerships; variable life settlements; complex structured products, such as collateralized debt obligations (CDOs) or cases where investors have mortgaged home equity for investment purposes or have utilized retirement savings, including early withdrawals from IRAs, to invest in high risk investments.

Our CCO will maintain documentation of all such reviews, indicating dates, scope of review and findings.

Suitability

Accredited Investor

Policy Requirements

Under the Act, there are serveral standards to determine whether an individual investor (that is, an investor who is a natural person, as opposed to a legal entity) is an accredited investor:

- Under the net worth test, an individual qualifies as an accredited investor if he or she has an individual net worth, or joint net worth with his or her spouse, excluding the value of the investor's primary residence of at least $1,000,000.
- Under the income test, a qualified investor must have individual income in excess of $200,000 (or joint income with his or her spouse in excess of $300,000) in each of the two most recent years and a reasonable expectation of reaching the same income level in the current year.
- An individual who possesses certain professional certifications, designations or credentials issued by an accredited educational institution, such as the Series 7, Series 65, and Series 82 licenses.
- With respect to investments in a private fund, natural persons who are "knowledgeable employees" of the fund.
- Spousal equivalents, who may pool their finances for the purpose of qualifying as accredited investors.

Procedures and Documentation

Our CCO will review suitability determinations based on accredited investor status to determine that the standards under the Act are being met.

Working with other members of Senior Management, Legal and issuers, where appropriate, our CCO will review subscription and other documents to ensure any discussion of accredited investor is updated, as needed.

Change of Customer Investment Objectives

Procedures and Documentation

Our CCO must establish procedures to review and monitor changes made to customer investment objectives , in accordance with SEC Rule 17a-3(a)(17).

Under the direction of our CCO, annually we will perform a review of the policies and procedures to determine whether they are sufficient or need to be enhanced.

Investment Recommendations

Policy Requirements

To comply with FINRA Rule 2111, all investment recommendations made to a client must be suitable for the client, based on information obtained by the registered representative upon opening of the account. As of June 30, 2020, FINRA Rule 2111 no longer applies to any recommendations subject to Regulation Best Interest.

To know your customer, broker-dealers and their registered personnel must learn all essential facts relevant to every order, every customer, and every account opened or serviced. (FINRA Rule 2090 Know Your Customer)

Procedures and Documentation

Our CCO must ensure appropriate oversight through reviews, exception reports, audits, onsite visits, training, etc., to ensure that all investment recommendations are suitable under Rule 2111.

Our designated supervising principals will oversee the suitability requirements and documentation based on the client profile information.

DUE TO THE COMPLEXITY OF RULE 2111 AND THE ACCOMPANYING FINRA INTERPRETATIONS AND GUIDANCE, OUR CCO WILL ENSURE THAT ALL APPROPRIATE AFFILIATED INDIVIDUALS ARE GIVEN, OR HAVE ACCESSS TO, FINRA REGULATORY NOTICES 11-02 and 11-25, REQUIRING EVERYONE TO ACKNOWLEDGE RECEIPT AND FULL UNDERSTANDING OF BOTH.

Through our Continuing Education Firm Element Training Plan, our Annual Compliance Meeting, compliance alerts, and other means as deemed appropriate, all registered personnel are advised of what is considered a recommended (i.e., solicited) transaction (including what types of communication can be deemed to be considered a recommendation, as discussed in "Communications With The Public**:** Recommendations" herein), and that the client's investment objectives, risk tolerance, financial resources and level of sophistication and knowledge about financial matters and securities markets, and all other investor profile requirements, must be clearly understood by the registered representative servicing the account. Income, liquidity needs, time horizons, age, employment status, occupation, dependents and other relevant information must be considered and discussed with the client when determining investment objectives and making appropriate recommendations.

Non-Recommended Transactions

Our registered personnel are advised that suitability must be a concern even when accepting a non-recommended transaction. There have been cases where broker-dealers have been cited for unsuitable, non-recommended transactions, including cases when the registered individual STATES that a transaction was not recommended.

A supervising principal may not approve new account forms and the opening of a new account or undertake the first transaction unless the principal determines that we have obtained sufficient investor profile information.

We will utilize exception reports to indicate when a single investment represents an unacceptable percentage of a client’s investment portfolio. This percentage can vary, but any over 30% will warrant immediate review.

For retail clients, any investment in excess of three hundred thousand dollars ($300,000) may require a financial statement no more than two years old.

We will review all transactions for appropriateness and suitability during our regular and random reviews of client accounts.

Transactions deemed unsuitable by registered individuals should not be processed without first consulting a supervising principal who may require a written disclosure from the customer acknowledging this firm's concern that the transaction is unsuitable and that the customer wants to proceed regardless.

If a trade appears unsuitable, the representative and his or her immediate supervisor will be contacted to defend their position that the trade was suitable.

Know Your Customer

Every effort will be made to obtain the following, or similar, information (as well as any other information deemed to be pertinent in terms of our making investment recommendations) on all new accounts and on all accounts as they are routinely updated.

- Title of account;
- Customer's full name/home address/home phone;
- Customer's employer/Customer's occupation/Customer's title;
    - Is Employer a broker-dealer?
    - Is the Customer affiliated with FINRA?
    - Is Customer associated with another broker-dealer?
    - Is Customer a public company officer/director/controlling stockholder?
- Spouse's employer/spouse's occupation/spouse's title, if applicable;
- Customer’s employer address and spouse’s employer address, if applicable;
- Name/address/relationship of third-party operating account;
- Type of account;
- Citizenship/age;
- Trusted Contact Person, if applicable;
- How the account was acquired/How long has the representative known the client?
- Bank references/other references;
- Previous investment experience;
- Other securities holdings;
- Investment time horizons;
- Liquidity needs;
- Income/net worth/tax bracket;
- Investment objectives;
- Initial transaction information;
- Social security/tax payer ID number;
- Signature of registered representative/signature of principal;
- Any standing instructions;
- Verification of registered representative's licensing/registration in customer's state of residence;
- Other brokerage accounts held by customer; and

- Is Customer related to/associated with an employee of this firm?

Supporting documentation to be obtained includes but is by no means limited to:

- Tax returns;
- Power of Attorney, if applicable;
- If the client is an Employee Benefit Plan participant, a copy of the plan document and written authorization executed by the plan trustee which expires and requires renewal on an annual basis.

All client files and records are subject to surprise inspections and/or review under the direction of our CCO.

Recommended Investment Strategies

Supplemental Material .03 to Rule 2111 states: The phrase *"investment strategy involving a security or securities" used in this Rule is to be interpreted broadly and would include, among other things, an explicit recommendation to hold a security or securities*.

The following communications are EXCLUDED from the coverage of Rule 2111 if they do not include (standing alone or in combination with other communications) a recommendation of a specific security or securities:

a. *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;*
b. *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;*
c. *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 Rule 2214 (Requirements for the Use of Investment Analysis Tools) if the asset allocation model is an "investment analysis tool" covered by Rule 2214; and*
d. *Interactive investment materials that incorporate the above.*

Our CCO will develop our internal policies and procedures covering investment strategy recommendations. FINRA Regulatory Notice 11-02 discusses principles that are relevant to determining whether a communication could be viewed as a recommendation for purposes of the suitability rule. In addition, Regulatory Notice 11-25 has some investment strategy FAQs. These policies and procedures will be disseminated to all appropriate associated personnel.

Liquefied Home Equity Recommendations

No affiliated personnel may make recommendations to an existing or potential customer to liquefy their home equity to purchase securities without having the transaction approved by an appropriate

supervising principal PRIOR to the transaction. Immediately upon approval of the transaction, the information will be given to Compliance for further suitability review. If a determination is made that both the liquidation of equity and the initial transaction were NOT appropriate, no further transactions may be undertaken in the account without the prior written approval (i.e., initials and date) of the CCO.

In addition to other suitability requirements, our CCO will require review of all transactions involving funds obtained by liquefying home equity as soon as possible after the initial transaction has occurred, to confirm that the files contain documented evidence that the following have been considered:

- How much equity does the investor have in the home?
- What is the level of equity being liquefied by investments?
- How will the investor meet any increased mortgage obligations?
- Is the mortgage or home equity loan at a fixed or variable rate?
- What is the investor's risk tolerance with respect to the funds being invested?
- What is the investor's overall debt burden?
- What is the sustainability of the value of the investor's home?

The files must also contain documented evidence that the customer has been provided with adequate risk disclosure information, including:

- The potential loss of their home;
- The fact that, unlike other potential lenders, we have an interest in having the proceeds of the loan used for investments which may generate commissions, mark-ups, or fees for this firm;
- If applicable, the fact that this broker-dealer, or an affiliated entity, may earn fees about originating the loan;
- The impact of liquefied home equity on the home owner's ability to refinance a home mortgage; and
- Depending upon the amount of home equity liquefied and any change in the value of the home, the homeowner may have negative equity in the home.

Our CCO will ensure that we conduct a review annually of all customer accounts that involve funds obtained by liquefying home equity to ensure that we adhere to our strict policies and procedures. If the review finds that individual registered personnel have a higher than average instance of opening accounts with funds obtained through home equity liquidation, heightened scrutiny will be given to such accounts. We may also contact the customer to ensure that full disclosure of all related risk factors were clearly made.

Main Suitability Obligations

Policy Requirements

According to FINRA Regulatory Notice 11-02, there are three main suitability obligations: reasonable-basis, customer-specific and quantitative suitability.

- **Reasonable-basis suitability** requires a broker to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors. 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 firm's or associated person's familiarity with the security or investment strategy. A firm's or associated person's reasonable diligence must provide an understanding of the potential risks and rewards associated with the recommended security or strategy.
- **Customer-specific suitability** requires that a broker have a reasonable basis to believe that the recommendation is suitable for a specific customer based on that customer's investment profile. As noted above, the rule requires a broker to attempt to obtain and analyze a broad array of customer-specific factors. For example, Regulation Best Interest applies to recommendations to "retail customers," which Reg BI defines as a natural person, or the legal representative of such natural person, who receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer and uses the recommendation primarily for personal, family, or household purposes. Thus, FINRA's suitability rule is still needed for 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).
- **Quantitative suitability** requires a broker 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 considering the customer's investment profile. Factors such as turnover rate, cost-equity ratio and use of in-and-out trading in a customer's account may provide a basis for finding that the activity at issue was excessive.

The rule makes clear that a broker must have a firm understanding of both the product and the customer. It also makes clear that the lack of such an understanding itself violates the suitability rule.

Suitability obligations continue to be a priority. Some specific areas on which FINRA may focus include: (1) deficient quantitative suitability determinations or related supervisory controls; (2) overconcentration in illiquid securities, such as variable annuities, non-traded alternative investments and securities sold through private placements; and (3) recommendations to purchase share classes that are not in line with the customer's investment time horizon or hold for a period that is inconsistent with the security's performance characteristics.

Procedures and Documentation

Our CCO is responsible for ensuring that:

- all affiliated personnel (from senior management to reps in the field) are given sufficient training and instruction to understand these three basic suitability elements;
- appropriate risk controls are put into effect;
- supervisors have sufficient resources and tools to undertake meaningful suitability reviews; and
- adequate review procedures exist, both on a "real time" and an "after the fact" basis.

Registered Personnel

Code of Ethics

Policy Requirements

Brighton Securities Corp has a Code of Ethics that is disseminated to all affiliated personnel. Violations of this Code of Ethics by anyone, from Senior Management to clerical staff, will not be tolerated. The following elements are included in our Code of Ethics:

- Every aspect of our business will be conducted in a fair, lawful and ethical manner.
- Sufficient internal controls have been implemented to ensure that all reasonable efforts are always taken to deter and detect any activities that do not meet the highest standards of ethical behavior.
- Senior Management is committed to working with our CCO to ensure the existence and awareness of a strong and committed compliance culture. Our leadership will consistently instill ethical behavior throughout the firm and make it known that anyone acting in a manner less than what is expected would be sanctioned or terminated.
- Senior Management will lead by example, creating an environment encouraging honesty and fair-play by all employees in the conduct of his or her duties.
- Our customers will be offered only those preapproved products/services that have been determined to be appropriate for their specific needs and provide fair value.
- It is our obligation to respect and protect the right to privacy of all our clients.
- Confidential or proprietary information, obtained during an individual's association or employment with Brighton Securities Corp, may not be used for personal gain or be shared with others for personal benefit.
- All efforts are to be made to avoid actual or apparent conflicts of interest. Such a conflict may exist even when no actual wrongdoing occurs; the opportunity to act improperly may be sufficient to give the appearance of a conflict.
- Strict compliance with all laws and regulations governing the securities industry is paramount.
- Senior Management will continue to ensure that the procedures in place are acceptable in terms of making determinations regarding the qualifications, experience and training of all individuals prior to assigning them any supervisory responsibilities.
- Individual employees not adhering to this Code of Ethics, as well as all other policies and directives issued by Brighton Securities Corp, during any activities undertaken on behalf of this broker-dealer will be subject to sanctions and possible termination.

Procedures and Documentation

To ensure that the above Code of Ethics is maintained throughout the company, Senior Management, working with Compliance and all supervisory personnel, will strive to ensure that the supervisory policies and procedures contained in that document ensure the following:

- The best interests of our clients are foremost.
- Adherence to all regulatory requirements is ensured.

- All our personnel are adequately trained to perform at the highest ethical, legal, and professional levels.
- Only highly qualified, well-trained personnel will have review and/or supervisory responsibilities.
- All compliance and supervisory efforts, and all appropriate follow-up activities, will be well documented and appropriately maintained.
- Immediate attention will be given to any area in which our efforts are found to be deficient in any manner.
- We will always have sufficient personnel in place to perform any actions deemed necessary at any given time.
- We will ensure that all associated persons are aware of the seriousness with which all compliance efforts should be undertaken.

Continuing Education and Training

Continuing Education (CE)

FINRA Rule 1240 (Continuing Education) requires registered employees to complete two continuing education elements:

1. **Regulatory Element** is a computer based training program that focuses on rules and regulations and industry standards and practices for compliance, regulatory, ethical, and sales practice.

2. **Firm Element** is administered by the broker-dealer and required for all registered representatives that deal with public customers (and their supervisors).

Firm Element Needs Analysis and Training Plan

Procedures and Documentation

Our CCO ensures that we have an appropriate, written Continuing Education (CE) Training Plan developed from an annual Internal Needs Analysis, and that training is offered to all covered persons, all registered personnel with direct contact with customers, and to their immediate supervisors. The training is given as often as deemed appropriate and/or necessary, but not less than annually.

When reviewing the Needs Analysis, our CCO, working with Senior Management and other appropriate individuals, will take into consideration: complaints received, registered personnel histories, levels of experience, specific requests, etc.; compliance and legal feedback; aggregate Regulatory Element scores; as well as other internal indicators. All issues taken into consideration will be documented, including an indication of how each has impacted the Training Plan.

Should it become apparent that an individual is attempting to avoid training, he or she will be suspended from all trading activities pending completion of the required training and, in some instances, may be terminated.

Our CCO, working with Senior Management and other applicable associated personnel, will determine annually whether our CE program meets our objectives as stated in the Needs Analysis and Training Plan.

Annually, all customer complaints will be reviewed to uncover any patterns that may indicate specific training needs, or identify areas not sufficiently addressed in our existing Training Plan.

FINRA Notice to Members 05-68 (and others as issued) relating to Firm Element Advisories issued by The Securities Industry/Regulatory Council on Continuing Education will be referred to when developing new areas of our Firm Element Training Plan or when making amendments.

Regulatory Element

Background

FINRA Rule 1250 requires that we designate and identify to FINRA, the name and e-mail address of an individual or individuals responsible for receiving the e-mail notifications provided by WebCRD. Such e-mail notifications will advise us

- When a registered person is approaching the end of his or her Continuing Education Regulatory Element time frame
- When a registered representative is deemed inactive due to failure to complete the requirements of the Continuing Education Regulatory Element Program

Responsibility

Our CCO ensures that the appropriate individual(s) and contact information are disclosed on FINRA Contact System (FCS) and that such information is reviewed to ensure that it remains current.

Procedure

Our CCO will review this information at least annually. Change of designation must be made within 30-days of a new individual being given authority over our Continuing Education Program. Copies of any updated information will be maintained by Compliance, as well as documentation indicating when updates were not required based on the annual review, evidenced by initials and date and a notation that no change is required.

CONTINUING EDUCATION: Regulatory Element Overview

Background

FINRA's new Web-based delivery method ("CE Online") provides registered persons with the flexibility to complete the Regulatory Element at a location of their choosing including their private residence at any

time during their 120-day window for completion. From FINRA Regulatory Notice 15-28, "Registered persons will continue to have the option of completing the Regulatory Element in a test center until the phase-out of the test center delivery method but will be required to use the FINRA CE Online System when the phase out of test center delivery is complete, July 4, 2016." Effective 10/1/15, the S106, S201 and S901 have been launched. S101 will be launched on January 4, 2016.

Responsibility

Our CCO ensures that all appropriate registered personnel adhere to the Regulatory Element Continuing Education (CE) requirements.

In addition, all supervisors, under the guidance of our CCO and registered representative training sessions, will ensure that individuals participating in the CE Online Regulatory Element training are aware of the following:

- The Web-based format will include safeguards to authenticate the identity of the CE candidate. For instance, prior to commencing a Web-based session, the candidate will be asked to provide a portion of their SSN (either first five or last four digits) and their date of birth. This information will only be used for matching data in the CRD system. The Web CE system will discard this information after the matching process.
- Before commencing a Web-based session, FINRA will require that each candidate agree to the Rules of Conduct for Web-based delivery. Among other things, the Rules of Conduct will require each candidate to attest that he or she is in fact the person who is taking the Web-based session. The Rules of Conduct will also require that each candidate agree that the Regulatory Element content is the intellectual property of FINRA and that the content cannot be copied or redistributed by any means.
- Discovery by FINRA that a candidate has violated the Rules of Conduct, the candidate will forfeit the results of the Web-based session and may be subject to disciplinary action by FINRA. Violation of the Rules of Conduct will be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade).

Procedure

Our CCO, working with Licensing and Registration where appropriate, oversees the requirement that each registered individual completes FINRA's computer-based training sessions in a timely manner.

Our CCO will assume responsibility for the following.

- Individuals will be advised at 90-days, at 60-days and at 30-days and continually thereafter.
- If an individual's 120-day period expires without successful completion of the CE Regulatory Element component, the individual will receive notification that the individual cannot undertake any activities requiring registration until such time as he/she completes the CE requirement. Such inactive status does not permit us to compensate this individual for any securities-related activities, furthermore, any loss of commissions or salary or other compensation may not be repaid upon successful completion of the CE. Our CCO will maintain documentation of all steps taken to ensure an individual's inactive status is appropriately reflected and that he or she is adequately supervised to ensure no inappropriate activities are undertaken.

- Failure by any individual to complete the CE Regulatory Element within 60-days after becoming inactive will result in disciplinary action and may lead to termination. Our CCO will ensure that the files contain documentation of all steps taken with regard to any individual's continued delinquency 60-days past his/her 120-day time frame.
- Upon hiring a new registered employee, our CCO will ensure that WebCRD verification indicates that the individual's status is not inactive due to failure to satisfy Regulatory Element requirements prior to being hired by us. This verification is to be accomplished by doing a pre-hire check on WebCRD. The verification will be printed and maintained in the files.
- For any new registered employee who is inactive at the time of hire, steps will be taken, and documented in the files, to ensure that no activities requiring registration, and no compensation based on securities-related activities, are permitted until such time as the CE Regulatory Element has been satisfied.
- Our CCO will maintain all records relating to our individuals and their compliance with CE Regulatory Element requirements.

Form U4/U5

Form U4 Disclosure

Policy Requirements

Under FINRA Rule 2263, when an associated person is asked to sign a new or amended Form U4, we explain that the Form U4 contains a pre-dispute arbitration clause; indicate where on the Form U4 it is located; and advise the associated person to read the pre-dispute arbitration clause prior to signing the form.

Procedures and Documentation

Our Licensing and Registration Principal must ensure that all rules and regulations pertaining to the disclosure are made to any individual signing a new or amended Form U4.

Within one month of each new hire, the individual's file will be reviewed to ensure that the appropriate disclosures have been signed and maintained in the file. The individual who undertakes the review will indicate compliance with the requirement by initialing the signed disclosure.

Form U4/U5 Amendment Late Filing Fees

Policy Requirements

Article V, Section 2(c) of FINRA By-Laws requires that Forms U4 and U5 be *"kept current at all times by supplementary amendments that must be filed with FINRA not later than 30 days after learning of the facts or circumstances giving rise to a reporting obligation."* If the filing involves a statutory disqualification as defined in Section 3(a)(39) and Section 15(b)(4) of the Exchange Act, *"such amendment must be filed not later than 10 days after such disqualification occurs."*

Notice to Members 12-32 explains the circumstances that will result in a firm being assessed a late fee of $100 for the first day that an applicable disclosure event is not timely filed and $25 for each

subsequent day, up to a maximum of 60 days and $1,575, when it fails to report, in a timely manner, a new disclosure event or a change in the status of a disclosure event previously reported on an initial Form U5, an amendment to a Form U4, or an amendment to a Form U5.

Procedures and Documentation

Reps are required to keep their U4 current.

Individuals failing to immediately disclose information that may require U4 amendments will be required to explain, in writing, why the failure occurred and may face internal sanctions.

Our CCO must ensure that Form U5 is updated if information becomes available on individuals who have been terminated.

Partial U5 Filings

Upon deciding that an individual is no longer in a role which requires a certain exam (i.e. an individual holding a 24 is no longer supervising anyone), a partial U5 must be filed, terminating the exam qualification. Failure to file a partial U5 is viewed as "parking" of licenses and is therefore prohibited.

Annually, the exam registrations of the individuals are reviewed to ensure that those exams are required based on the individual's job description.

Form U4: Initial Registrations

Procedures and Documentation

An employee may not perform any duties normally performed by a registered representative unless such person is effectively registered with FINRA and all applicable state rules and regulations.

Applications for employment of registered representatives are prepared by completing and submitting a Form U4 via FINRA's WebCRD.

We will obtain written permission for each prospective employee prior to requesting a preregistration report from WebCRD, and maintain all such permissions in our personnel/U4 files.

Our CCO or an appropriately designated principal will evidence the review and approval of all new hires by signing and dating the Form U4 prior to its being submitted on WebCRD. The registering individual is also required to acknowledge the document at that time.

Annually we will review the registration status of each registered individual, evidenced by initials and dates, generally on the FINRA annual renewal roster.

On an ongoing basis, our commission runs are reviewed to ensure that no individuals have undertaken any activities that require registration for which they do not have appropriate registration and/or licenses.

Supervising principals must assure a registered individual handling account activity of an account is appropriately licensed in the state of residence of the client.

All registered personnel are required to review their Form U4 annually and notify the firm of any changes required to the Form.

Form U5: Individual Termination Forms

Procedures and Documentation

No individual other than the CCO may give final authorization to submit a Form U5.

Form BR has branch location information that is not editable on Form U5, our CCO will ensure that either a Form U4 amendment (for a nonregistered location address change) or a Form BR amendment (for a registered branch address change) has been filed prior to filing a Form U5 for an associated individual.

Our CCO will ensure that we file a Form U5 within 30-days of terminating a registered individual.

As proof that the individual received a copy of his/her Form U5, a signed statement of receipt must be obtained from the terminated individual. If this is not possible, a copy of the Form U5 will be mailed to the individual, utilizing a mailing service (i.e., UPS, Federal Express, etc.), which will provide proof-of-delivery.

Registered Personnel Policies

Active Military Duty Call-Ups

Under FINRA Rule 1210, registered personnel who are called into active military duty, are placed in a specially designated inactive status when we are notified of their military call-up and need not be re-registered. The inactive status does not jeopardize their registration status if appropriate procedures are followed. In addition, these individuals will remain eligible to receive transaction-based compensation, including commissions.

We also may allow such person to enter into an arrangement with another registered person of our firm to take over and service the person's accounts and to share transaction-related compensation based upon the business generated by such accounts. However, because such persons are inactive, they may not perform any of the functions and responsibilities performed by a registered person.

A person placed on inactive status pursuant to Rule 1210 will have his or her dues and assessments identified in Article VI of FINRA By-Laws waived. In addition, a registered person who is placed on inactive status shall not be required to complete either the Regulatory Element or Firm Element set forth in Rule 1240 during the pendency of such inactive status.

Procedures and Documentation

Our CCO, when advised by any registered personnel that they were called to active duty, will submit to the CRD/Public Disclosure Department by either email (webcrd@finra.org), mail (FINRA, Registration & Disclosure, Reg Srvcs & Ops, 9509 Key West Avenue, Rockville, MD 20850) or fax (301-216-3716):

1. A letter on our firm's letterhead that identifies:
    - the name and CRD number of the individual called into active duty
    - the date the individual started active military service
    - our firm's CRD number
2. The individual's orders (official call-up notification) or letter of leave request for individuals that voluntarily join. Either document should include the following information:
    - the individual's start date
    - military branch
    - location of service duty
    - When the individual's military service ends and he or she returns to our firm or begins working at a new firm, we shall provide to FINRA the following documentation:
        1. A letter from the firm (on firm letterhead) to FINRA that includes:
            - our CRD number
            - the individual's name and CRD number
            - the date the individual returned to the original firm or began working at the new firm, as appropriate
        2. A copy of the individual's discharge papers that indicate the start and end dates of service

Associated Persons and Branch Office Records

Procedures and Documentation

As required under Exchange Act Rule 17a-3, our CCO, working with Registration, Licensing and other appropriate supervising principals will ensure that, for all branch offices or off-site affiliated individuals, the following materials are maintained and almost immediately accessible when any regulator asks to see documents.

The CCO, working as needed with Operations and the office locations, will determine how each record will be accessed and/or made available to the specific office location upon request by a regulator.

- Each newly hired associated person will be entered into the system. Initials and dates on the Forms U4 or other appropriate materials will evidence that such individual has been entered into our system.
- Terminated individuals will be removed from the system, but their records will be maintained for an appropriate period as required by the SEC's books and records rules.
- By comparing to a list of all associated persons, our record maintenance system and the way it is utilized will be reviewed at least semi-annually to ensure that everyone is appropriately designated.

Associated Persons Exclusion: The term “associated persons” excludes those persons whose functions are solely clerical or ministerial.

Office Definition: Under the SEC’s amended Books & Records Rule – Exchange Act Rule 17a-3, "office" is defined as “*locations where one or more associated persons regularly conduct a securities business*.” Excluded from the definition are private residences where only one associated person, or multiple persons of the same immediate family regularly conducts business and the office is not held out to the public as an office of the broker-dealer and neither customer funds nor securities are handled.

Records to Be Maintained by Associated Person, by Office Location:

Complaints

- Complainant’s name/address/account number;
- Date complaint received;
- Name of each associated person involved;
- Description and nature of complaint; and
- Disposition.

Employment Agreements

Any documents relating to the relationship between the associated person and this broker-dealer

Compensation Arrangements

All compensation arrangements, including commission, concessions, overrides and other compensation to the extent that they are earned or accrued for transactions; non-cash compensation (i.e., sales incentives, gifts, trips, etc.) also fall into this category if they are directly related to sales.

Compensation Transactions

Commission runs, and any blotters maintained pursuant to individual transactions for which a specific associated person receives compensation

Designation of Individual at Each Location Responsible for Delivering and Explaining the Records Maintained for That Office Location

A specific individual at each office location must be designated who can immediately explain to any regulator what records are maintained for that location by the broker-dealer and who is responsible for ensuring that all requested records can be immediately delivered to the office location:

- Blotters
- Order Tickets

- Customer Account Records

Delivery of Books and Records to Office Locations: Exchange Act Rule 17a-3 requires that all related books and records are maintained at the office location where the associated persons are located. It is, however, acceptable to have the books and records maintained elsewhere if that allows for immediate delivery to the location upon request by a regulator.

We are responsible for ensuring that all such records can be delivered, either through e-mail, an intranet download, FAX or overnight mail (the latter is acceptable if the regulator onsite has indicated overnight delivery as an acceptable time frame for some materials). However, most of the materials will not be permitted to be sent by overnight delivery.

Written Customer Agreements: We are required to create a record for each account, indicating that each customer has been furnished with a copy of any written agreement entered pertaining to that account. If a customer requests a copy of any agreement relating to his/her account, we will maintain a record indicating that it has been provided.

Correspondence: Commercial Electronic E-Mail

Procedures and Documentation

The Compliance Department will ensure that all outgoing e-mails are appropriate and systematically reviewed for compliance with regulations and our internal policies and procedures.

Commercial electronic e-mail includes e-mail messages primarily used to send an advertisement or to promote a product or service.

Designated principals must ensure that all such commercial e-mails contain the required opt-out feature. Any recipients responding that they do not want to receive any further e-mails must be immediately disclosed to Compliance.

Our CCO or other appropriate designated principal will ensure that all individuals who have responded to a commercial e-mail requesting that they no longer be contacted in such a manner are added to our Do-Not-E-Mail list, which is kept current and appropriately disseminated, or made available on an intranet site or other shared location.

Designated supervising principals will ensure that commercial e-mails sent out by the individuals under their direct supervision do not:

- Use false or misleading information;
- Use deceptive subject headings;
- In any way deceive or mislead the recipient regarding the sender's address;
- Use computers owned by others to transmit commercial e-mails;
- Register for an e-mail address or domain name using materially false information;
- Falsely represent themselves in any manner;
- Use address harvesting to obtain e-mail addresses; or

- Create multiple accounts from which to send commercial e-mail.

Designated principals must also ensure that each commercial e-mail:

- Is clearly and conspicuously identified as an ad, or that a solicitation includes clear and conspicuous identification;
- Contains a legitimate street address of the sender; and
- Contains a valid return address or sufficient information to allow recipients to opt-out.

Electronic Communications

Policy Requirements

Exchange Act Rule 17a-4(b)(4) requires broker-dealers to maintain originals of all communications received, and copies of all communications sent, including inter-office memoranda and communications, that relate to our securities business.

From Regulatory Notice 07-59, "FINRA expects a broker-dealer to have supervisory policies and procedures to monitor **all** electronic communications technology used by the firm and its associated persons to conduct the firm's business. A firm should consider, prior to implementing new or different methods of communication, the impact on the firm's supervisory procedures that might be necessary, to identify and address any issues that may accompany the adoption of new electronic communications technologies. Finally, firms are reminded that they have a separate but equally important obligation to ensure that their use of electronic communications media enables them to make and keep records as required by SEC Rules 17a-3 and 17a-4, and FINRA Rule 4511.

Electronic communications include:

- Incoming and outgoing external e-mails through our server;
- Internal e-mails;
- E-mail platforms other than ours (i.e., Yahoo, Bloomberg, Reuters, etc.);
- Text messages;
- Message boards; and
- E-faxes.

Procedures and Documentation

Our CCO, and Legal Department must ensure that we have appropriate policies and procedures for internal and external electronic communications, (i.e., incoming and outgoing) used by associated personnel.

If applicable, our CCO will ensure that all e-mails between non-research and research departments regarding the content of a research report are copied to both Legal and Compliance.

Risk-Based Approach

Our CCO will:

- Flag electronic communications that may evidence or contain customer complaints, problems, errors, orders, or other instructions for an account that may evidence conduct inconsistent with FINRA rules and federal securities laws;
- Identify specific business areas warranting supervisory review;
- Review branch office electronic communications; and
- Maintain appropriate documentation of electronic communications review.

Our CCO also must ensure that documentation is retained, including any changes made as required, concerning the following:

- Identification of the types of correspondence to be pre-approved and post-approved;
- Identification of specific individuals responsible for conducting reviews of different types of correspondence;
- Steps taken to monitor the implementation of, and compliance with, our procedures for reviewing public correspondence;
- Undertaking periodic evaluation of the effectiveness of our public correspondence review oversight policies and procedures;
- Ensuring that all customer complaints, received either by e-mail or other written form, are appropriately reported to FINRA;
- Procedures to ensure employees' awareness of the prohibition against using electronic communications unless such communications are subject to the supervisory and review procedures developed by this firm; and
- Appropriate on-going firm-wide education and training.

Our CCO will ensure that all internal emails sent through a central server are handled by our routine server backup, and that these backups are maintained at a secure off-site location for six years in a format that does not allow overwriting or alteration in any manner.

Our CCO will conduct quarterly review of internal emails maintained in this manner, evidenced by initials and dates. Internal emails that require investigation or clarity will be maintained as well, indicating what the investigation uncovered, with dates and initials evidencing such review.

If we permit our registered employees to utilize instant messaging as a means of communicating with existing or potential customers, we will put policies and procedures guiding such use into place prior to allowing that activity. Our CCO would ensure that any instant messaging software we used would have the capability of monitoring, archiving, and retrieving all messaging traffic.

Fingerprinting of Associated Personnel

Procedures and Documentation

Our CCO ensures that affiliated registered and nonregistered individuals have their fingerprints submitted to FINRA through WebCRD, as well as employees who have access to our original books and records or to client files.

Our CCO will ensure that documentation is maintained (as required by Rules 17a-3(12)(ii)(e) and 17a-3(a)(19)) for nonregistered individuals who require fingerprinting, including:

- The location where the individual regularly conducts his or her business;
- Identification number;
- A compensation agreement; and
- A questionnaire of application for employment, approved in writing by an authorized representative of the broker-dealer.

During our pre-hire review of an individual on WebCRD, our CCO or an appropriately designated Licensing and Registration individual will ensure that, if the individual is, or was, associated with another broker-dealer, his or her fingerprints are indicated on the system as clear.

In instances where approval has been granted to submit the Form U4 prior to fingerprint submission, our CCO will ensure that the individual does not become engaged in any activities requiring registration until the prints have been submitted and a clear indication is given on WebCRD.

Copies of clear notifications printed off WebCRD are placed in the individual's personnel or Form U4 file or in our fingerprint file.

Fingerprint Exempt Individuals

- A list of all individuals associated with Brighton Securities Corp who are exempt from the requirement to have fingerprints on file with FINRA/WebCRD, pursuant to Exchange Act Rules 17f-2(a)(1) and 17f-2(a)(2), will be maintained in our Compliance Department.
- Our CCO will ensure that original books and records are only maintained by individuals who have been fingerprinted and that such books and records are secured when such individuals are not in the office.
- Our CCO will further ensure that only fully-licensed individuals (i.e., those required to be fingerprinted, unless specifically exempted under (a)(1)(iv) of 17(f)(2)) are permitted to *"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."*
- Our CCO will maintain a list of all individuals associated with this broker-dealer who are exempt from the requirement to have fingerprints on file with FINRA/CRD pursuant to Exchange Act Rules 17f-2(a)(1) and 17f-2(a)(2).

Notice to Members 05-39 (May 2005) suggests best practices for ensuring that the fingerprints submitted to the FBI through FINRA belong to the individual seeking employment with this broker-dealer.

Heightened Supervision

Policy Requirements

According to FINRA Rule 3110, firms must establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities

laws and FINRA rules. From Regulatory Notice 18-15, the term "heightened supervision" means those supervisory procedures designed to *"monitor the histories of their associated persons and establish heightened measures to supervise the activities of those associated persons with greater potential of creating customer harm."*

Notice 18-15 provides guidance on heightened supervisory procedures for associated persons with a history of past misconduct. In this Notice, FINRA listed the following two circumstances as situations that would raise significant investor protection concerns, suggesting that firms should evaluate the facts and circumstances to make a determination of whether heightened supervision would be appropriate:

- *Heightened Supervision of Statutorily Disqualified Persons During Eligibility Review Process*.

  Currently, if an associated person who has an industry or regulatory-related event that qualifies as a statutory disqualification (SD) under the Securities Exchange Act of 1934 (Exchange Act) wants to continue associating with a member firm, he or she must undergo a FINRA eligibility proceeding. Under FINRA's current rules, a person who becomes statutorily disqualified while associated with a member firm is allowed to remain associated with that member firm during FINRA's review process, so long as the member firm promptly files a Form MC-400 application (SD Application). In reviewing an SD Application, FINRA can seek to prevent the statutorily disqualified person from associating with a member firm or can permit the statutorily disqualified person to associate with a member firm if it is consistent with the public interest and protection of investors. Generally, where FINRA permits the statutorily disqualified person to associate or continue association with a member firm, FINRA will condition the association on the establishment of certain safeguards, including the adoption and implementation of a heightened supervisory plan by the member firm of the person's business activities. To further promote investor protection, member firms should consider adopting and implementing an interim plan of heightened supervision for any statutorily disqualified person associated with the firm once the SD Application is filed with FINRA and to keep such heightened supervisory plan in place while the review is pending. FINRA believes heightened supervision may be appropriate for such persons because they have already been statutorily disqualified, and, in nearly every case, the continued association of a statutorily disqualified person approved through a FINRA eligibility proceeding is conditioned on the individual being subject to a robust heightened supervision plan.

- *Heightened Supervision of Persons While Disciplinary Case Is On Appeal.*

  Currently, when an associated person or member firm in a litigated disciplinary case appeals a Hearing Panel decision to the National Adjudicatory Council (NAC), sanctions are generally stayed pending an appeal. In cases where the Hearing Panel has rendered a decision making a finding of violation against the associated person and where an appeal is filed, to further promote investor protection, firms should consider adopting and implementing an interim plan of heightened supervision for such associated person and keep such heightened supervisory plan in place while the appeal is pending. FINRA believes heightened supervision may be appropriate for such persons because they have already been found to have violated a rule.

Procedures and Documentation

The activities of any individual requiring heightened supervisions are monitored by the CCO. On a rolling 12-month basis, our CCO will work with Senior Management where appropriate, to update and appropriately distribute the list of individuals who require heightened supervision, and ensure that appropriate heightened supervision is occurring.

Lori Alberts must continuously monitor and maintain a list of associated persons who require heightened supervision; and ensure that appropriate heightened supervision is occurring.

The following criteria will be used to determine whether a registered individual should be subject to special or heightened supervision:

- Registered representatives with a history of customer complaints, disciplinary actions and/or arbitration (three or more customer complaints alleging sales practice abuse within the past two years, including written complaints, arbitrations, civil actions);
- Persons hired in a non-registered capacity who were previously employed as a registered representative and who have such a history;
- Registered representatives who develop such a history while associated with this firm;
- Registered representatives terminated from prior employment for what appears to be a significant sales practice or regulatory violation;
- Registered representatives who have had three or more broker-dealer employers in the past five years;
- A complaint filed by a regulator; and
- An injunction about an investment-related activity.

If we do not identify any individuals who require heightened supervision, our CCO will continue to review all new hires and investigate any red flags suggestive of misconduct for all current associated persons on a quarterly basis to determine whether one or more associated persons require heightened supervision.

Heightened supervision must include the following procedures as well as others as appropriate:

- Unannounced supervisory reviews
- Increased number of supervisory reviews
- Broader scope of the activities reviewed
- Approval by one or more principals of the supervisory review
- Tailored plans on a case-by-case basis for each associated person identified as requiring heightened supervision
- Required written acknowledgment of the heightened supervisory plan by the associated person subject to the plan and the designated supervisory principal

At a minimum, the designated supervising principal will hold weekly meetings with any individual requiring heightened supervision to discuss their ongoing responsibilities, and to assess the continuing willingness of the individual to accept the special supervision.

Our CCO will meet with the individual under heightened supervision at the end of the specified period of time requiring heightened supervision. This meeting will determine whether the objectives of the supervisory arrangement were met and assess the need to extend the period of special supervision.

Hiring Registered Personnel

Prior to Hiring

Procedures and Documentation

Our CCO, working with Licensing and Registration, Human Resources and/or other appropriate individuals, must ensure that all appropriate steps are taken prior to hiring any individual as a registered representative.

The following is a checklist of what must be done, and documented, prior to our deciding to hire an individual to become a registered representative of this broker-dealer.

- Individuals must state that there are no outstanding complaints or issues about which he or she is aware that might not yet appear on WebCRD.
- We must obtain written permission from the individual being investigated to conduct a WebCRD search.
- If an individual's status for continuing education (CE) is inactive, our CCO will ensure that the individual sits for the required CE prior to functioning in any capacity that requires FINRA or state registration or licensing.
- We will document the results of our contact with all the individual's previous employers for the past three years.
- Background Checks/Investigation – we must ascertain by investigation the good character, business reputation, qualifications and experience of any individual before filing an initial or transfer Form U-4. Our verification process must at a minimum include a national search of reasonably available public records conducted by us or by a third-party service provider to verify the accuracy and completeness of the information contained in an applicant's Form U4.
- PRIOR to filing a Form U4 for any individual, our CCO will review information on FINRA's public disclosure website to ensure that we are aware of all disclosed incidents relating to the individual, and to ensure that the individual is not statutorily disqualified.
- We must ensure that we screen all individuals, even those who will be in a position that does not require registration, to ensure that they are not statutorily disqualified.

On-Boarding

Upon registering an individual with this firm, we must ensure, and document, that we have received the following

- Disclosure of all current outside securities accounts at other broker-dealers;
- Disclosure of any outside investment advisory activities;
- A completed Insider Trading Safeguard Statement;
- A completed Selling Away Statement; and
- Other "attestations" or documents as required by our internal policies.

Educational Communication Related to Recruitment Practices and Account Transfers (FINRA Rule 2273)

When we hire (or become affiliated with) a registered representative, we must provide former customers, individually (in paper or electronic form) an educational communication as prepared by FINRA, when:

- We, directly or through a representative, contact a former customer of that representative to transfer assets; or
- A former customer of the representative, transfers assets to an account assigned, or to be assigned, to the representative at the firm.

The communication to former customers of a representative must be the FINRA-created communication. We may not use an alternative format.

The educational communication highlights the following potential implications of transferring assets to us:

- financial incentives the representative receives may create a conflict of interest;
- some assets may not be directly transferrable to us and the customer may incur costs to liquidate and move those assets or incur account maintenance fees to leave them with his or her current firm;
- potential costs related to transferring assets to this broker-dealer, including differences in the pricing structure and fees the customer's current firm and this firm impose; and
- differences in products and services between the customer's current firm and us.

Additional communications by the transferring representative may include:

- informing the former customer that he or she is now associated with this firm;
- suggesting that the former customer consider transferring his or her assets or account to this firm;
- informing the former customer that we may offer better or different products or services; or
- discussing with the former customer this firm's fee or pricing structure.

Oral or written communications to a group of former customers similarly triggers the requirement to deliver the FINRA-created educational communication under Rule 2273 including:

- mass mailing of information;
- sending copies of information via email; or
- automated phone calls or voicemails.

We are required to deliver the educational communication at the time of first individualized contact with a former customer by us, directly or through the representative, regarding the former customer transferring assets to us.

If the contact is in writing, the educational communication must accompany the written communication.

If the first individualized contact with the former customer is oral, we must notify the former customer orally that an educational communication will be provided no later than three business days after the contact, or with any other documentation sent to the former customer related to transferring assets to us, whichever is earlier.

If the former customer seeks to transfer assets to an account assigned, or to be assigned, to the representative at this firm we must deliver the educational communication to the former customer, within three months, with the account transfer approval documentation.

If the former customer subsequently decides to transfer assets to the firm without further individualized contact within the period of three months following the date that the representative begins employment or associates with us, then the educational communication is required to be provided with the account transfer approval documentation.

Legal Proceedings and Investigations

Disclosure Requirements

Every registered employee must immediately notify the Compliance Department if he or she is ever:

- The subject of any investigation or inquiry by any federal or state authority or self-regulatory organization (SRO);
- Requested to testify before or provide documents to any federal or state authority or SRO;
- A defendant or a respondent in any civil, administrative or arbitration matter;
- The subject of any censure, injunction, suspension, fine, cease and desist order, or any other sanction imposed by any federal or state authority or SRO;
- The subject of any bankruptcy proceeding;
- The subject of any oral or written complaint by a client or any claim for damages by a client; or
- The subject of any arrest, summons, arraignment, indictment, conviction, or guilty plea to any criminal misdemeanor or felony offense, other than a minor traffic violation.

Any new disclosures must be made to Form U4 and submitted to FINRA/CRD within thirty-days of the event.

Military Installations: Sales and Offers of Sales

Procedures and Documentation

For purposes of FINRA Rule 2272, a “military installation” is any federally owned, leased or operated base, reservation, post, camp, building or other facility to which members of the U.S. Armed Forces are assigned for duty, including barracks, transient housing and family quarters.

The following disclosures must be made for all sales and offers of sales on the premises of a military installation to any member of the U.S. Armed Forces or a dependent thereof, prior to engaging in any sales or offers of sales:

- The identity of this firm as the broker-dealer offering the securities; and
- The fact that the securities offered are not being offered or provided on behalf of the Federal Government, and that the offer of such securities is not sanctioned, recommended or encouraged by the Federal Government.

Documentation of all the appropriate disclosures as well as adherence to FINRA Rule 2111 “Suitability” and the “Fees and Compensation” requirements under Rule 2272 will be appropriately maintained.

Additionally, only an appropriately qualified individual associated with this broker-dealer, receives a referral fee or incentive compensation in connection with sales or offers of sales of securities on the premises of a military installation.

Operations Professionals

Policy Requirements

FINRA Rule 1220(b)(3) has created the registration category of, and qualification exam for, "Operations Professionals".

There are sixteen different "functions" and three categories of individuals defined under the Rule who must become registered as an Operations Professional.

Procedures and Documentation

Operations Professionals holding an acceptable qualifying exam (#6, #7, #17, #37, #38. #4, #9/10, #14, #16, #24, #26, #27, #28, #51 and #53) only need to have their U4 amended to reflect their registration as an Operations Professional.

All other individuals registering as Operations Professionals after October 1, 2018 shall, prior to or concurrent with such registration, pass the SIE and the Operations Professional qualification examination. A person registering as an Operations Professional shall be allowed a period of 120 days beginning on the date such person requests Operations Professional registration to pass any applicable qualification examination, during which time such person may function as an Operations Professional.

CE Firm Element: Operations Professionals must be included in our Firm Element Training Plan.

Prior Mutual Fund and/or Variable Product Clients

Procedures and Documentation

Our CCO and supervising principals must ensure that we have oversight procedures to ensure appropriate switching and exchange activities when a prior business is no longer available to newly-hired registered individuals engaged in mutual fund and/or variable insurance product transactions.

Prior to registering a new individual, our CCO, working with Registration staff and Senior Management, will determine whether the individual has been engaged at a previous broker-dealer in any investment products for which we need to obtain a new dealer or servicing agreement.

In instances where we are either unable or unwilling to service a customer's mutual fund or variable product, either the registered representative or Compliance will notify the customer accordingly, clarifying the option of continuing to hold the investment at the previous broker-dealer.

Only if the customer advises us, in writing, that they do not want to continue to hold the investment at the previous firm, would we offer a recommendation to liquidate or surrender the investment.

As with all other transactions, any recommendation to liquidate, replace or surrender mutual fund or variable insurance products must be suitable and meet the obligations of Regulation Best Interest. Prior to approval, all such transactions will be reviewed by a supervising principal, and then reviewed by Compliance after the fact, to ensure that the recommendation was not made to obtain compensation that would otherwise have not been received had the customer retained the previously sold investment.

For a period of at least six-months after the date of hire, the CCO must scrutinize any switches, exchanges, liquidations or surrenders, to ensure that such activity is consistent with the customer's investment needs and objectives, and to verify that the transaction has been preceded by appropriate disclosure to the customer.

Exception reports covering these areas will be reviewed in detail to ensure that any transactions engaged in by individuals who fall under this special review procedure are in full compliance with these policies and procedures.

Relocation of Clients (Temporary or Permanent)

Policy Requirements

We may not open an account if the firm and the registered representative are not licensed in the state in which the potential client lives. Certain sales support employees and employees engaged in trading may also be subject to these registration requirements.

However, under the National Securities Markets Improvements Act of 1996 (NSMIA), there are occasions when a registered representative may continue transacting business with a client even if that client has relocated to a state in which the registered representative is not currently licensed to transact securities purchases or sales. It is our policy that no registered representative may conduct business in a state in which he or she is not licensed without receiving prior approval from his other supervising principal. Instances where this permission may be granted are as follows:

a. The customer, who has been a customer of this broker-dealer for at least thirty days prior to the transaction, has temporarily relocated to another state, and the registered representative has been assigned to service that specific customer for at least fourteen-days prior to the transaction. The registered representative must also have been registered with the state in which the customer was a resident for at least thirty consecutive days during the one-year period prior to the transaction.
b. The customer, who has been a client of this broker-dealer for thirty days prior to the transaction, has moved to another state, and the state to which the client has moved has not ever denied, or stayed, the pendency of the registered representative's prior application. In such instances, the registered representative will be permitted to affect transactions during the sixty-day period following the filing of a registration application with the state.

Situations may arise which require additional registrations (i.e., a state in which the representative is currently not licensed/registered). Such instances include:

- A current client who relocates to another state;
- A current client who purchases a second home or obtains a regular vacation address in another state, and requests receipt of account statements or trade confirms to that address;
- A client who relocates for a specified period and requests that correspondence/confirms/etc. are rerouted for the period of time he/she is away; or
- A registered representative who is assigned an existing account that is in a state where he or she has not previously had any clients.

In a situation where two or more representatives have a joint number, each representative in the joint number account must be properly registered for the joint number to receive commissions earned for transactions completed for the client (i.e., the representatives must have the same, appropriate registration).

Procedures and Documentation

When an existing client relocates to a state where the individual servicing the account is not currently licensed, the designated principal will review the conditions under which he or she may continue to service the account.

Retrieval of Records upon Termination

Procedures and Documentation

The CAO/CSO will make our CCO aware of any situation where it is not possible to retrieve all appropriate materials from a terminated individual. Those situations will then be handled by the CCO, working with appropriate supervising principals and Senior Management.

Where appropriate, office doors will be locked until the computer and other equipment can be secured.

Tape Recording of Registered Persons by Certain Firms (FINRA Rule 3170)

Policy Requirements

FINRA Rule 3170 contains a definition of "taping firm":

i. A member with at least five but fewer than ten registered persons, where 40% or more of its registered persons have been registered with one or more disciplined firms within the last three years;
ii. A member with at least ten but fewer than twenty registered persons, where four or more of its registered persons have been registered with one or more disciplined firms within the last three years;
iii. A member with at least twenty registered persons where 20% or more of its registered persons have been registered with one or more disciplined firms within the last three years.

For purposes of calculating the number of registered persons who have been associated with one or more disciplined firms in a registered capacity within the last three years pursuant to this rule, members should not include registered persons who:

i. have been registered for an aggregate total of 90 days or less with one or more disciplined firms within the past three years; and
ii. do not have a disciplinary history.

Taping Rule Exemption: Pursuant to the Rule 9600 Series, FINRA may, in exceptional circumstances, taking into consideration all relevant factors, exempt any taping firm unconditionally or on specified terms and conditions from the requirements of this Rule. A taping firm seeking an exemption must file a written application pursuant to the Rule 9600 Series within 30 days after receiving notice from FINRA or obtaining actual knowledge that it is a taping firm. A member that becomes a taping firm for the first time may elect to reduce its staffing levels pursuant to the provisions of paragraph (c) or, alternatively, to seek an exemption pursuant to paragraph (d), as appropriate. A taping firm may not seek relief from the Rule by both reducing its staffing levels pursuant to paragraph (c) and requesting an exemption.

Procedures and Documentation

If we are required to be a taping firm Lori Alberts must ensure that, within 60 days of such knowledge, we establish, maintain, and enforce special written procedures for supervising the telemarketing activities of all of our registered persons for three years from the date that we established and implemented the procedures.

Our CCO will ensure that by the 30th day of the month following the end of each calendar quarter we submit to FINRA a report on our supervision of the telemarketing activities of our registered persons.

Upon becoming a taping firm for the first time, we may reduce our staffing level to fall below the threshold levels within 30 days after receiving notice from FINRA or obtaining actual knowledge that we are a taping firm, provided we promptly notify FINRA's Department of Member Regulation in writing of our becoming subject to the Rule.

Upon reducing our staffing level to fall below the threshold level, we may not rehire a terminated person to accomplish the staff reduction for a period of 180 days.

On or prior to reducing staffing levels, we must provide FINRA's Department of Member Regulation with written notice identifying the terminated person(s).

Training

Procedures and Documentation

Our CCO must ensure that our registered personnel receive appropriate and adequate training to fully understand their responsibilities and to follow applicable SEC, FINRA, and MSRB rules, as well as with our internal policies and procedures.

Our CSO is responsible for monitoring the training needs of individuals for whom they have oversight responsibility, and for either supplying such training or requesting that our CCO provide the training.

- Training can be offered in various ways:
    - Annual Compliance Meeting;
    - Firm Element continuing education;
    - Preregistration orientation;
    - Policies and procedures manuals (Operational, Compliance, etc.);
    - Compliance alerts;
    - Exam requirements; or
    - Other means as determined to be appropriate and effective.
- Our CCO will maintain documentation of all training, including:
    - Dates;
    - Method of delivery;
    - Topics covered;
    - Copies of materials utilized;
    - Names and CRD #s of individuals who received the training; and
    - Feedback received on the training.

Use of Personal Computers

Procedures and Documentation

The CCO with the assistance of the IT Manager must ensure that registered personnel comply with the prohibition against using personal computers without receiving prior approval.

Registered personnel are expressly prohibited from corresponding with customers from their home computers, through a laptop brought into the office, or through third-party systems, unless such arrangements have been agreed to, in writing, by our CCO and documented evidence of the approval and any limitations have been given to the registered individual and his or her direct supervising principal.

The IT Manager is responsible for establishing written procedures overseeing any arrangements permitting the usage of computers elsewhere than on the premises of a bona fide branch office with its

own internal supervisory capabilities. Our CCO would oversee such specific arrangements for supervisory involvement along with strict guidelines concerning such usage.

At least quarterly, we will review situations where individuals have special arrangements to use computers at non-bona fide branch offices, to ensure that they are living up to the stipulated agreement and guidelines.

If a violation is found, documentation regarding the violations will be given to the appropriate supervising principal or to Compliance for further action.

Restricted Transactions

Positions of Trust for or on Behalf of a Customer

Policy Requirements

Effective February 5, 2021, Rule 3241 limits any registered person from being named a beneficiary, executor or trustee, or to have a power of attorney or similar position of trust for or on behalf of a customer.

Rule 3241 provides that a registered person must decline:

1. being named a beneficiary of a customer's estate or receiving a bequest from a customer's estate upon learning of such status unless the registered person provides written notice and receives written approval from the member firm prior to being named a beneficiary of a customer's estate or receiving a bequest from a customer's estate; and
2. being named as an executor or trustee or holding a power of attorney or similar position for or on behalf of a customer unless:
    a. upon learning of such status, the registered person provides written notice and receives written approval from the member firm prior to acting in such capacity or receiving any fees, assets or other benefit in relation to acting in such capacity; and
    b. the registered person does not derive financial gain from acting in such capacity other than from fees or other charges that are reasonable and customary for acting in such capacity.

The rule does not apply where the customer is a member of the registered person's immediate family.

Procedures and Documentation

Upon receipt of the registered persons' written notice, our CCO will:

- perform a reasonable assessment of the risks created by the registered person's assuming such status or acting in such capacity, including, but not limited to, an evaluation of whether it will interfere with or otherwise compromise the registered person's responsibilities to the customer; and

- make a reasonable determination of whether to approve the registered person's assuming such status or acting in such capacity, to approve it subject to specific conditions or limitations, or to disapprove it.

A reasonable assessment of the risks created by the registered person's assuming such status or acting in such capacity would take into consideration several factors, such as:

1. any potential conflicts of interest in the registered person being named a beneficiary or holding the position of trust;
2. the length and type of relationship between the customer and registered person;
3. the customer's age;
4. the size of any bequest relative to the size of a customer's estate;
5. whether the registered representative has received other bequests or been named a beneficiary on other customer accounts;
6. whether, based on the facts and circumstances observed in the member's business relationship with the customer, the customer has a mental or physical impairment that renders the customer unable to protect his or her own interests;
7. any indicia of improper activity or conduct with respect to the customer or the customer's account (e.g., excessive trading); and
8. any indicia of customer vulnerability or undue influence of the registered person over the customer.

Our CCO will document any assessments for our records. Annually, our CCO will review written notices, approvals, and risk assessments, evidencing such reviews with initials and dates.

Cash and Non-Cash Compensation

Policy Requirements

Noncash compensation or sales incentives of more than one hundred dollars ($100) per person, per issuer, annually, including travel bonuses, prizes, and awards offered by any sponsor or program, cannot be paid directly or indirectly to us or to any associated person. Such compensation is NOT permitted to be preconditioned on achievement of a sales target.

We are permitted to provide such noncash compensation to our representatives provided no sponsor, affiliate of a sponsor, or program, including an affiliate of this broker-dealer, directly or indirectly participates or contributes in providing such noncash compensation. In such instance, cash compensation must be paid directly to us, with distribution to representatives controlled by us, disclosed in the prospectus, if appropriate, and reflected on our books and records. See Regulatory Notice 16-29.

Procedures and Documentation

Our Senior Management must make all reasonable efforts to ensure that no inappropriate cash or noncash compensation is received by any individuals under their direct supervision.

On an ongoing basis, our CCO will review all cash and noncash compensation we receive to ensure that we are not violating any regulations.

- We provide training regarding cash and noncash compensation prohibitions through our Annual Compliance Meetings, Continuing Education Firm Element Training, internal memorandums, face to face discussions, etc.;
- We prohibit sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time with respect to our brokers;
- Any non-cash compensation arrangements will be reviewed to ensure consistency with the applicable requirements of Regulation Best Interest; and
- We maintain copies of all required formal requests for receipt of cash or noncash compensation, with the written response, either in the individual's personnel/Form U4 file, or in another appropriate file.

Churning

Policy Requirements

Executing transactions solely to generate commissions, (churning) is strictly prohibited. Churning activities will result in, at the very least, suspension of the representative's trading activities and, in severe or repeat cases, termination.

Turnover is a measure of how frequently a customer's funds are reinvested from one security to another. Churning is generally characterized by short-term holding periods and high turnover ratios.

Churning generally occurs when a representative has direct or indirect control over a customer's account, as in discretionary accounts. Indirect control exists in situations where customers have a high degree of reliance on a representative.

Procedures and Documentation

Our designated supervising principals must ensure that all transactions undertaken by individuals under their direct supervision are reviewed to reasonably detect and deter any instances of illegal churning in customer accounts.

We will generate quarterly reports, including all buys and sells, to be reviewed by the designated principal.

If a review uncovers instances that appear to have an excessive amount of client activity all of that registered representative's accounts will be carefully reviewed. In addition, accounts that seem to generate a disproportionately high amount of commissions relative to the size of the investment will be singled out for further review and possible investigation.

If churning is suspected, the registered representative servicing the account will be called in for a face-to-face meeting, with Compliance, and given a chance to explain the activity in question.

We will document and retain all review and follow-up activities.

Employee Accounts

Procedures and Documentation

Associated persons and their immediate families are prohibited from participating in IPOs, except for broker-dealers who are engaged solely in mutual funds and/or variable annuities and/or Direct Participation Programs, as indicated in FINRA Rule 5130.

Our CCO ensures that we have appropriate pre-hire, and ongoing, procedures in place to be fully aware of each employee's outside brokerage accounts. In addition, our designated supervising principals must ensure that the individuals under their direct supervision are aware of the requirements regarding any outside brokerage accounts held by employees of this broker-dealer.

- Our designated supervising principals must pre-approve requests for outside securities accounts, submitting such request to Compliance for final approval.
- Our CCO will determine whether we need to receive copies of all confirmations and statements, or only monthly statements.
- Our CCO will maintain records of all correspondence or discussions concerning outside securities accounts.
- Our CCO will review employee confirms and/or statements monthly.
- If applicable due to the nature of our business, our CCO will also review employee account activity for any possible front-running violations.
- Any investigations and findings undertaken due to questions raised while reviewing confirms and/or statements will be documented and maintained either by the supervising principal or by Compliance, with notes of the findings and any necessary follow-up actions, indicating who undertook the investigation.

Frontrunning/Trading Ahead

Policy Requirements

Registered personnel are prohibited from buying, selling, or recommending the purchase or sale of any security or a derivative for any account in anticipation of (a) a price change resulting from a contemplated or pending block transaction in the security or a derivative thereof for another account, or (b) the issuance of a research report, research rating change, or other similar occurrence that could materially impact the market for a security.

Procedures and Documentation

- Our CCO must ensure that appropriate surveillance procedures are in place to detect any frontrunning or trading-ahead activities. In addition, our designated supervising principals must

ensure that individuals under their immediate supervision are aware of the prohibitions regarding frontrunning and trading-ahead, and adhere to our policies and procedures.

- Employee transactions, both through this broker-dealer or another firm where they have a brokerage account for which we receive copies of confirms and statements, will be reviewed, for any frontrunning/trading ahead activity. We will maintain documentation of such reviews in the files, evidenced by initials and dates.
- Compliance personnel will review employee trading activity to determine if any unusual activity has taken place.
- We will investigate all large block buys or sells by clients, as well as any instances of client trading in securities subject to research report issuance or rating changes, to determine if any abusive activity did occur. We will maintain documentation concerning all such investigations in the files, indicating what triggered the investigation, who undertook the investigation, the dates and the findings, including any corrective measure undertaken, if applicable.
- Employees will receive training on what constitutes frontrunning and be advised on a regular basis and at our Annual Compliance Meeting, of the prohibition against trading on the knowledge of large block securities transactions ahead of the execution of such order. Employees will be advised that sharing the knowledge of such a potential trade with anyone who does not have a need-to-know is also a frontrunning violation.
- Our CCO and any other specifically designated individuals will ensure that reviews of employee accounts include looking for possible frontrunning violations.

Gifts and Gratuities

Policy Requirements

Employees or members of their immediate family are prohibited from giving or receiving any item of value (i.e., gifts, gratuities, etc.) greater than $100 in value, annually, when the item of value given or received relates to firm business.

Entertainment of or by clients for a reasonable cost is not prohibited. Entertainment costs are considered reasonable if both the host and guest attend the entertainment together (i.e., a football game) and/or the guest's portion of the total cost of the entertainment does not exceed $250 if the entertainment has a for-profit sponsor, or $500 if a non-profit sponsor is involved. Reasonable greens fees or admission to a baseball game are examples of reasonable entertainment.

Procedures and Documentation

Our CCO must ensure that all employees are aware of the restrictions on giving of gifts and/or compensation of any nature.

Under FINRA Rule 3220, all employees are required to submit a request to our CCO, PRIOR to giving, or receiving, a business-related gift to an individual employed by another broker-dealer, a financial institution or any other entity with which we have a business relationship.

All such requests will approved or denied in writing. In no instance will any gifts be permitted to exceed $100 for any one individual over a 12-month period.

Our CCO will maintain a gifts and gratuities log, looking for any patterns that may raise concern.

Any gift or gratuity received by an employee or an immediate family member that does not fall within the above reasonable definition must be reported to our CCO, who will enter the information onto our gifts and gratuities log, which will be retained for a period of six years.

Improper Use of Customer Funds

Procedures and Documentation

When the firm receives a check from a customer, all policies and procedures concerning the handling of client funds must be carefully adhered to.

All customer checks must be made payable to a third-party, (i.e., to an investment company, insurance company, an issuer, an issuer's escrow account, clearing firm, etc.).

No client checks are permitted that are made payable to the firm or to an employee of the firm. Such checks must be immediately turned over to the Compliance Department who will enter the check into our checks received/disbursed log and return to the client, with re-issue instructions.

For direct business, the firm will process all funds received, make copies, make appropriate checks received/disbursed log entries and mail directly to the appropriate third-party no later than noon of the following business day, or return such funds to the customer. We will also maintain copies of all customer checks received with the checks received/disbursed log. If the check is to be deposited into a First Clearing Account, process a deposit directly to First Clearing.

Our checks received/disbursed logs will be reviewed on an ongoing basis to ensure that all checks are appropriately forwarded in a timely manner. Failure to immediately forward the checks could put us in jeopardy of a net capital violation. We will maintain documentation of all such reviews, evidenced by initials and dates.

Red flags triggering a more in-depth review include, but are not limited to:

- Significant increase/decrease in transaction frequency;
- Material change in the type of securities purchased/sold in an account;
- Increase in commissions generated by an account; and
- Significant increase in canceled transactions or extension requests.

Insider Trading

Policy Requirements

FINRA Rule 3110(d) requires a firm to include in its supervisory procedures a process for reviewing securities transactions that is reasonably designed to identify trades that may violate the provisions of

the Exchange Act, its regulations or FINRA rules prohibiting insider trading and manipulative and deceptive devices that are affected for:

- accounts of the firm;
- accounts introduced or carried by the firm in which a person associated with the firm has a beneficial interest or the authority to make investment decisions;
- accounts of a person associated with the firm that are disclosed to the firm pursuant to FINRA Rule 3210; and
- covered accounts.

Firms may take a risk-based approach to monitoring transactions, which should include establishing guidelines or criteria for taking reasonable follow-up steps to determine which trades are potentially violative trades and, therefore, merit further review via an internal investigation. There is no implied obligation on firms as to how best to conduct the reviews. For instance, some firms may determine that only certain departments or employees pose the greater risk and examine trading in those accounts accordingly.

Covered Accounts

FINRA Rule 3110(d) defines the term “covered accounts” as any account introduced or carried by the firm that is held by:

1. the spouse of a person associated with the firm;
2. a child of the person associated with the firm or such person’s spouse provided that the child resides in the household or is financially dependent upon the person associated with the firm;
3. any other related individual over whose account the person associated with the firm has control; or
4. any other individual over whose account the associated person of the firm has control and to whose financial support such person materially contributes.

Procedures and Documentation

Our CCO is responsible for controls and training over insider trading.

- All employees must sign an "Insider Trading Safeguard" Statement upon being hired.
- All employees are required to attest to receiving a copy of this section of our WSPs, and that they understand the requirements thereunder.

All employees, including all officers and registered and nonregistered personnel, are required to do the following.

- Maintain, as confidential, all business-related information about his or her job-related responsibilities;
- Refrain from disclosing any inside information to any person except on a need-to-know basis; and
- Refrain from trading on inside information.

Restricted List: Working with Senior Management, our CCO will ensure that a Restricted List is made available to all appropriate registered personnel, and ensure that this list is reviewed not less than monthly.

Addition (Deletion) to Restricted List: Any employee possessing any sensitive or confidential information should promptly report the addition or deletion to the Restricted List of such company(ies) to our CCO.

- Additionally, the employee reporting the addition or deletion should submit a memo concerning the timing and rationale for such addition or deletion.
- The Restricted List as amended from time to time will be disseminated to all employees.
- A company will be added to the Restricted List when we gain access to material, nonpublic information that could impact the value of the company's securities, including a pending or proposed sale of the company, a major acquisition or divestiture, a private placement, earnings/financial announcement or other development that would have a material impact on the company's securities if made public.
- A company can be deleted from the Restricted List once the information has been publicly disclosed or the development that necessitated its inclusion is no longer deemed material (e.g., acquisition discussions terminated without the occurrence of a transaction).
- Questions or uncertainties about the materiality of an activity or timing on the addition or deletion of a company from the restricted list are to be directed to our CCO.
- Documentation to any additions, deletions, and rationale for such determination will be maintained in the files by our CCO.

Our designated supervising principals must ensure that the individuals under their direct supervision maintain the following insider trading safeguards (as well as any others that may be deemed necessary or appropriate):

- Visitors should always be accompanied while in our offices; they should not be permitted to wander the halls or sit in an office of a director, associate or analyst. Conference rooms or the lobby are the only appropriate places for visitors when unescorted by an employee.
- Client information must be secured in locked file cabinets overnight. Confidential files or memos, work papers or other materials are not to be left unattended or available for review by others.
- Nonpublic inside information about any company is not to be discussed with any person (including spouse, sibling, parent or close friend), regardless of whether the company is a client or a company about which we may have some information.
- When appropriate, client or project code names should be utilized instead of client names to identify clients on desk files, memos, binders and other analytical documents and communications, as well as on vouchers and/or receipts for outside expense charges.
- All inquiries relating to any company, client or not, from the press or investment community should be directly referred to our CCO or CEO.
- No identifying materials, desk or library files, memos or reports, binders or review documents, catalogues, magazines and/or company brochures are to be left in a conference room, office or workstation when a meeting, conference or work is complete.

- Care is to be taken concerning conversations (including phone and elevator conversations) with fellow employees and with clients regarding confidential matters. Employees should always be aware of others who may be present physically or via speaker phone, for instance, at the other end of a phone call.

- Our CCO will ensure that we do the following:

- Resolve issues, whenever necessary, of whether information received is considered material and nonpublic;
- Regularly review our policies and procedures concerning insider trading safeguards, updating them when necessary to incorporate new or amended rules; and
- Decide when an officer, director or employee has material nonpublic information and
    a. Implement measures to prevent dissemination of such information
    b. If necessary, restrict certain individuals from trading the securities

Review of Transactions

All supervising principals are responsible for appropriately reviewing transactions for insider trading and other fraudulent activities.

- Once we have identified any possible violations, we must promptly conduct an internal investigation into the trade.
- Our CCO, working with senior management and appropriate supervisors will ensure that we comply with the following:
    - *Quarterly Reporting*

      FINRA Rule 3110(d) requires firms engaging in investment banking services to make written reports to FINRA within ten business days of the end of each calendar quarter describing each internal investigation initiated in the previous calendar quarter, including:

        - the name of the firm;
        - the commencement date of each internal investigation;
        - the status of each open internal investigation;
        - the resolution of any internal investigation reached during the previous calendar quarter, and, with respect to each internal investigation, the identity of the security, trades, accounts, associated persons of the firm or associated person of the firm's family members holding a covered account under review; and
        - a copy of the firm's policies and procedures.
    - *Reporting Insider Trading Violations*

      If we determine that a trade has violated provisions of the Exchange Act, its regulations or FINRA rules prohibiting insider trading and manipulative and deceptive devices, our CCO will ensure that we prepare a written report that details the investigation within five business days of the internal investigation. The report will include the results of the internal investigation, any internal disciplinary actions taken, and any referral of the

matter to FINRA, another SRO, the SEC or any other federal, state or international regulatory authority.

- *Filing Written Reports with FINRA*

  If we are required to file a written report to FINRA under FINRA Rule 3110(d) we must provide it, either in hard copy or electronically, to our Regulatory Coordinator.

Special Reports to Management

If any employee or associated registered or nonregistered individual learns of any potential violation of our policies and procedures to detect and prevent insider trading, she or he must promptly prepare a written report to the CCO or Senior Management providing full details. If an individual is not certain whether any rules have been violated, the issue should be brought to the attention of our CCO.

Outside individuals including, among others, attorneys, accountants and investment bankers involved in the relevant transaction are typically authorized to receive such information. Any questions regarding whether information may be properly communicated to another person must be addressed to our CCO prior to taking any action.

- We have supervisory procedures, overseen by our CCO, to uncover any insider trading activities, including:
  - Monthly reviews of trading activity reports filed by each officer, director and employee, evidenced by initials, dates and findings;
  - Monthly reviews of trading activities of any accounts managed by this firm, evidenced by initials, dates and findings;
  - Monthly reviews of trading activity of this firm's account, if appropriate, evidenced by initials, dates and findings; and
  - An annual coordinated review of all of the above reports with other appropriate officers, directors and/or employees, indicating who was involved in the review, dates and findings.

Annual Report to Management

The following will be set forth annually in a report, submitted by our CCO to Senior Management:

- A summary of existing procedures to detect and prevent insider trading violations;
- Full details of any investigation, internal or by a regulatory agency, of any suspected insider trading activities and the results of such investigation;
- An evaluation of the current procedures and any suggested improvements;
- A description of our training program regarding insider trading and suggestions for improvement in this area;
- Any additional information considered important either for the detection of insider trading violations or for more secure safeguards to prevent abuse.

Loans Between Registered Persons and Customers

Policy Requirements

FINRA Rule 3240 prohibits registered persons of broker-dealers from borrowing money from or lending money to a customer.

The following are the only scenarios in which such arrangements may be permitted without requesting permission from our CCO.

- The customer is a member of the registered individual's immediate family (i.e., parent, grandparent, in-law, husband or wife, brother or sister, child, grandchild, cousin, aunt or uncle, niece or nephew) or any other person whom the registered person supports, directly or indirectly, to a material extent.

Such lending arrangements are permitted, and associated personnel need not make notification or receive written approval from Compliance prior to, or subsequent to, such lending arrangements.

- The customer is in the business of lending money, and the customer is acting in the course of such business.

  Such lending arrangements are permitted, and associated personnel need not make notification or receive written approval from our CCO prior to, or subsequent to, such lending arrangements, PROVIDED the lending arrangement between the representative and the financial institution has been made on commercial terms that the customer generally makes available to the general public similarly situated as to need, purpose and creditworthiness.

The following scenarios require a written request to our CCO who will, on a case-by-case basis, consider approval of any such lending and/or borrowing requests only if the situation meets one of the permissible scenarios, as follows.

- The customer and the registered individual are both registered individuals of the same firm.

  In this scenario, our CCO may or may not permit such lending arrangements. Prior written request to, and approval from, Compliance are required.

- The lending arrangement is based on a personal relationship outside of the broker-customer relationship.

  In this scenario, our CCO may or may not permit such lending arrangements. Prior written request to, and approval from, Compliance are required.

- The lending arrangement is based on a business relationship outside of the broker-customer relationship.

  In this scenario, our CCO may or may not permit such lending arrangements. Prior written request to, and approval from, Compliance are required.

Procedures and Documentation

- Compliance will approve or disapprove the registered person's request if the lending or borrowing situation falls into one of the above situations where approval may be granted based on a written request outlining all applicable facts and circumstances.
- Approval or denial will be made in writing, and only upon written approval may the registered individual engage in the lending or borrowing arrangement.
- Our CCO will retain documentation in the files of each request and each response, indicating the fact-specific issues used to determine approval of any such request.
- Our CCO will ensure that we preserve the written pre-approval required by the rule for at least three (3) years after the date that the lending arrangement has terminated or for at least three (3) years after the registered person’s association with the broker-dealer has terminated.

- Annual attestations are required by all registered personnel regarding any loan arrangements in which they are involved with customers, or attesting to the fact that no such arrangements exist.

Manipulative, Deceptive or Other Fraudulent Devices or Activities

Policy Requirements

Under FINRA Rule 2020 and Exchange Act Rule 10b-5, registered representatives are prohibited from effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

Effecting trades in a customer's account without the customer's permission is expressly prohibited.

Procedures and Documentation

Our CCO will undertake appropriate surveillance activities designed to detect and deter any sales practice abuses or other fraudulent activities.

Our designated supervising principals must ensure that everyone under their immediate supervision does not engage in any manipulative, deceptive or other fraudulent activities, or act in any manner other than that which is ethical, fair and in line with the standards of this broker-dealer.

Information on account activity will be reviewed to detect any activity that may be deemed to be manipulative, deceptive or fraudulent during supervising principals' ongoing oversight of day-to-day activities, and during reviews of various areas of this firm's business conducted by our CCO or others. The discovery of any such actual or perceived activity will be investigated and will in most instances, result in an internal sanction including the possibility of termination.

Market Manipulation

Policy Requirements

FINRA continues to focus on manipulative trading in correlated ETPs, including those that track common, broad market indices. Similarly, FINRA will focus on reviews for potential manipulation across correlated options products.

Our CCO ensures that all registered personnel receive sufficient training about prohibitions on market manipulation, and must undertake appropriate surveillance activities to deter and detect any such fraudulent activity. Our CCO will maintain documentation of the training, including copies of materials that were distributed, the dates, and the names and CRD #s of those who received the training.

In addition, our designated supervising principals are responsible for ongoing monitoring of all activities of individuals directly under their supervision, making every effort to detect any efforts to manipulate the market.

Procedures and Documentation

Our CCO ensures that the following procedures are followed by all registered personnel:

- Any individual involved in the securities business is prohibited from participating in any type of activity that might be construed as a manipulation of financial markets.
- It is prohibited to circulate any rumors of a sensational or important nature to effect market conditions.
- Registered representatives must watch for potential or actual manipulation of markets by others with whom the registered individual does business, either colleague or client.
- Activities that affect the underlying price of a security for reasons other than supply-and-demand or other factors generally affecting the markets, can be construed as market manipulation. Any individual suspected of involvement in market manipulation will be spoken with directly to determine whether the individual is engaged in wrongdoing.

Misappropriation of Customer Funds or Securities

Policy Requirements

While sales practice abuses and manipulative activities are addressed elsewhere in these WSPs, this section is included to cover all areas of possible manipulation and misappropriation of client funds or securities in one place to stress the importance of these matters.

Accounts Utilizing Post Office Box Addresses - It is company policy that Post Office (P.O.) Box accounts may NOT be maintained at this firm without written authorization by the account holder. In instances where we do permit a P. O. Box to be utilized, we will send duplicate confirms and statements to the account holder's physical address.

Addresses Other Than Account's Home Address/In-Care-of Addresses -The same procedures as given above for P.O. Box addresses are in place for addresses other than the account holder's home address, and for any accounts that are in-care-of someone other than the account holder. Duplicate confirmations and account statements are sent to the customer's home address, whenever possible.

Verification of Changes of Address with the Customer - Any address changes will automatically generate, either through our clearing firm or Investment Company, a letter to the account holder, sent to both the old and new addresses.

Changes to Customer Account Information - An account information change will be formalized after communication with the client. Account information changes are either made through First Clearing service requests or direct contact to the Investment Company. This policy is further enforced by sending updated account information to our clients at least every 36 months as required under the SEC's amended books and records rules, Exchange Act Rules 15c3-3 and 15c3-4. Our registered personnel have no means by which to independently change any account information online.

Confirming Customer Authorizations to Transfer Funds - All transfers, withdrawals or wires from a customer's account must be confirmed in writing to the customer. In addition, a supervising principal or a member of our operation staff will verify the transfer or withdrawal (i.e., the amount and the recipient, including the account number the funds are to be transferred to, if applicable) directly with the assistant or representative and for any unusual transfers or withdrawals.

Pre-signed letters of authorization - Pre-signed documents do not provide adequate assurance of authorization from the customer and are prohibited.

Customer Signatures - All customer signatures are verified by Operation or Compliance. In addition, all third-party wire transfers and checks require approval. Any transfers to accounts serviced by the registered representative or branch manager will undergo immediate scrutiny.

Procedures and Documentation

We are focused on the possibility of abuse, and periodically and systematically review (i.e., on an ongoing basis, utilizing exception reports, client file reviews, supervisory oversight, etc.) for indications of problems.

Red flags requiring immediate review would include (a) a registered individual has a number of customers with non-home mailing addresses (such as a P. O. Box, an in-care-of address, etc.), (b) any customer account that shows the same address as the registered individual's, (c) multiple changes of address by a customer or among customers of a particular registered individual, (d) the use of the same address for multiple customers, or (e) correspondence returned as undeliverable by the post office.

Any activity deemed to be unusual for any reason (i.e., increased customer activity, larger than usual investment amounts, increase in address change requests, substantial change in registered individual's lifestyle, etc.) will be immediately investigated, generally by Senior Management and Compliance. In many instances, client contact will be required.

Our CCO, with the assistance of Senior Management, must ensure that we have in place controls over the utilization of account statements, letterhead and mail facilities to prevent unauthorized use.

We will only provide customers with online access to their account statements, on a secure firm website so that customers can easily verify activity in their accounts. No affiliated persons of this firm have, or will have, the ability to alter these statements in any manner.

All account statements include the phone number of the registered representative's supervisor, as well as a number where the customer can call with a complaint, if any questions or problems arise with the account.

We prohibit employee use of personal electronic devices, including personal computers, to conduct firm business, unless prior approval has been given, in writing, by our CCO. Where permission is granted, it is required that the laptop or other electronic device be linked with the firm's system to allow for

supervisory review. Where the linking is not possible, we require that data be periodically downloaded to the firm's system for review, or that a manager periodically review the contents of the electronic device. We will maintain evidence of all such reviews in the files, including dates, names of individuals who undertook the review, findings and any corrective measures taken, if applicable.

During all audits or routine visits to registered employees who work out of their homes, a request to see all computers and other electronic instruments utilized will be made, and all findings from such requests will be documented in the file.

Outside Business Activities

Procedures and Documentation

Outside business activities and private securities transactions continue to be a priority.

FINRA will continue to assess firms' controls related to associated persons' outside business activities and private securities transactions, including associated persons raising funds from their customers away from their firm and outside of their firm's supervision.

The designated supervising principals must investigate situations where they suspect that adequate disclosure has not been made. Newly hired individuals will be required to disclose all outside business activities.

Upon hire, the individuals are advised that from this point on, they must request, and receive permission, in writing prior to engaging in any outside employment or receiving any outside compensation.

At our Annual Compliance Meeting, all registered personnel are required to sign a statement indicating that they are not engaged in any outside business activities for which they have not received formal written approval.

Additional Compliance Responsibilities Under FINRA Rule 3270

Our CCO will ensure that the following requirements, as stipulated in Supplementary Material .01 to Rule 3270 are adhered to.

Upon receipt of a written request, consideration must be given to whether the requested activity will:

- Interfere with or otherwise compromise the registered person's responsibilities to this broker-dealer and/or our customers, or
- Be viewed by our customers or the public as part of our business based upon, among other factors, the nature of the requested activity and the way it will be offered.

Additionally, our review must contain an evaluation of the advisability of imposing specific conditions or limitations to the person's outside business activity or totally prohibiting the activity.

Finally, all requests must be evaluated to ensure they are appropriately characterized as an outside business activity rather than an outside securities activity.

Painting the Tape

Policy Requirements

"Painting the tape" refers to traders buying and selling a security among themselves to create artificial activity, which may lure unsuspecting investors when reported on the ticker tape. This illegal activity is often conducted at or near the close of the market to impact a security's closing price.

Procedures and Documentation

Our CCO will ensure that all registered personnel are fully aware of our prohibition against painting the tape.

- Our designated supervisory principals are responsible for daily oversight of all end-of-day transactions engaged in by individuals under their direct supervision.
- Designated supervising principals will conduct daily reviews of transactions, with emphasis on inter-dealer transactions executed at, or near, the market close to identify possible instances of painting the tape.

Parking of Licenses

Policy Requirements

As of October 1, 2018, FINRA Rule 1210 allows a broker-dealer, as a representative or principal, to make application for or maintain the registration of any associated person of the firm and any individual engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the firm.

Procedures and Documentation

Our CCO, working with Licensing and Registration, must ensure that the firm has adequate supervisory systems and procedures reasonably designed to ensure that individuals with permissive registrations do not act outside the scope of their assigned functions.

If any individual changes status (e.g., no longer in a supervisory capacity and therefore no longer in need of a principal's exam such as the Series 26 or Series 24), it is the designated principal's responsibility to notify the CCO, who will decide whether the individual should have the principal license terminated with this firm.

For purposes of compliance with FINRA Rule 3110(a)(5), we are required to assign a registered supervisor to the permissively registered individual who will be responsible for periodically contacting the individual's day-to-day supervisor to verify that the individual is not acting outside the scope of his or her assigned functions. If the permissively-registered individual is registered as a representative, the

assigned registered supervisor must be registered as a representative or principal. If the permissively-registered individual is registered as a principal, the assigned registered supervisor must be registered as a principal. However, the assigned registered supervisor is not required to be registered in the same representative or principal registration category as the permissively-registered individual. We will maintain documentation of all reviews in our files.

Licensing and Registration, under the supervision of our CCO, may not request any registrations to be held with this firm through Form U4 filings on WebCRD UNLESS the initial Form U4 or Form U4 amendment has been signed off on by an appropriate principal of the firm.

Parking of Securities

Policy Requirements

Parking of securities is an illegal practice intended to hide the real beneficial ownership of the securities. Although the term parking does not appear in any securities laws or rules, the term is often applied to a variety of schemes that violate securities laws.

Procedures and Documentation

Our CCO must ensure that there is no illegal parking of securities in any of our customer accounts, or in any firm accounts.

Our CCO, or another specifically designated individual, is responsible for reviewing transactions at least quarterly for this practice, particularly for the following parking schemes.

- Parking (i.e., placing) a stock into an account controlled by a potential acquirer (possibly in a nominee account) and subsequently transferring to, or reacquiring the position into, an account in their name at some later stage of the takeover attempt.
- Parking stock (by the firm itself) in a customer account (or other firm account) to avoid Exchange Act Rule 15c3-1 net capital haircut charges on the position, thereby showing a higher net capital amount than accurate, or avoiding a net capital deficiency.
- Parking of stock by an underwriter in a nominee account to effectively gain control over those shares.

Political Contributions

Policy Requirements

FINRA Rule 2030 prohibits member firms from distribution or solicitation activities with a government entity for compensation on behalf of an investment adviser or investment pool or covered investment pool that provides or is seeking to provide investment advisory services to that government entity within two years after a contribution to an official of the government entity is made by the member firm or an associated person of the member firm.

Procedures and Documentation

It is Brighton Securities Corp's policy to permit the firm and its covered associates, to make political contributions to elected officials, candidates and others, consistent with regulatory requirements.

Our Lori Alberts is responsible for the implementation and monitoring of our political contribution policy, practices, disclosures and recordkeeping.

Brighton Securities Corp has adopted various procedures to implement the firm's policy, conducts reviews to monitor and ensure the firm's policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- the Compliance Officer, or other designated officer, determines who is deemed to be a "Covered Associate" of the firm and promptly advises those individuals of their status as such;
- the Compliance Officer, or other designated officer, obtains information from new employees (or employees promoted or otherwise transferred into positions) deemed to be covered associates regarding any political contributions made within the preceding two years (from the date s/he becomes a covered associate) if such person will be soliciting municipal business. Such review may include an online search of the individual's contribution history as part of the firm's general background check;
- political contributions made by covered associates must not exceed the rule's de minimis amount;
- prior to accepting a new advisory client that is a government entity, the CCO, or other designated officer, will conduct a review of political contributions made by covered associates to ensure that any such contribution(s) did not exceed the rule's permissible de minimis amount;
- the Compliance Officer, or other designated officer, monitors and maintains records detailing political contributions made by the firm and/or its covered associates. Such records will be maintained in chronological order and will detail:
    - The name and title of each contributor;
    - The name and title (including any city/county/state or other political subdivision) of each recipient of a contribution or payment;
    - The amount and date of each contribution or payment; and
    - Whether any such contribution was the subject of the exception for certain returned contributions pursuant to Rule 2030;
- the Compliance Officer, or other designated officer, maintains records of:
    - The names, titles and business and residence address of all covered associates of the covered member;
    - The name and business address of each investment adviser on behalf of which the covered member has engaged in distribution or solicitation activities with a government entity within the past five years, but not prior to August 20, 2017;
    - The name and business address of all government entities with which the covered member has engaged in distribution or solicitation activities for compensation on behalf of an investment adviser, or which are or were investors in any covered investment pool on behalf of which the covered member has engaged in distribution or solicitation activities with the government entity on behalf of the investment adviser to the covered investment pool, within the past five years, but not prior to August 20, 2017;

- All direct or indirect contributions made by the covered member or any of its covered associates to an official of a government entity, or direct or indirect payments to a political party of a state or political subdivision thereof, or to a political action committee; and
- Any book or other record made, kept, maintained and preserved in compliance with SEA Rules 17a-3 and 17a-4, or with rules adopted by the Municipal Securities Rulemaking Board, which are substantially the same as the book or other record required to be made, kept, maintained and preserved under this Rule, shall be deemed to be made, kept, maintained and preserved in compliance with this Rule.

Should we determine that a covered person has contributed in violation of FINRA Rule 2030, we will qualify for an exception from the violation if the following conditions are met:

- We must discover the contribution within 4 months of the date it occurred;
- Ensure the contribution did not exceed $350; and
- The contributor must obtain a return of the contribution within 60 calendar days of the date of discovery of such contribution by the firm or associated person.

If we have more than 150 registered persons, we are entitled to no more than three exceptions per calendar year. If we have 150 or fewer registered persons, we are entitled to no more than two exceptions per calendar year. Additionally, we may not rely on the exceptions above more than once for the same covered associate, regardless of the time.

Private Securities Transactions of Individuals Independently Registered as IAs

Policy Requirements

FINRA Rule 3280 applies to registered personnel of a broker-dealer who are also registered with the SEC or with a state as an investment adviser participating, in his/her capacity as an investment adviser, in the execution of a trade at a broker-dealer other than the employing broker-dealer.

FINRA Rule 3280 does not apply if the representative/adviser merely makes a recommendation and the customer independently executes the order with another broker-dealer, directly with a mutual fund, or with a third-party investment adviser. However, FINRA Rule 3270, requires a representative to provide prompt written notice of any outside business activity, does apply.

Procedures and Documentation

Our CCO must ensure that we approve, track and log all securities activities of our registered personnel who are independently registered as investment advisers.

FINRA Rule 3280 requires registered personnel to provide written notice to our CCO PRIOR to participating in any private securities transaction. The notice must describe, in detail, the proposed transaction and their proposed role, including information of whether he or she has received, or may receive, selling compensation for the transaction.

Upon receipt of a request, our CCO will advise the individual in writing, whether his or her participation, has been approved or denied.

If we approve an "away" transaction in which the associated person has received or may receive selling compensation, the transaction will be recorded on our books and records, and we will supervise participation in the transaction as if it were executed by our firm. We will maintain a complete list of individuals who have been granted approval to undertake such activities.

An example would be when a registered representative/investment adviser enters an order for an advisory customer with a brokerage firm other than this broker-dealer, or directly with a mutual fund, or with any other entity including another adviser, and receives any compensation for the overall advisory services. In such instances, FINRA Rule 3280, and our responsibility to supervise, and maintain books and records on this transaction, would apply.

We are not required to give prior approval for each transaction. However, prior approval for each new client, is required.

Any registered employee of this firm who is also independently registered as an investment adviser who will be "selling away," MUST provide, in writing, a clear description of his or her proposed activities, detailing the types of securities transactions that would be executed, the service that would be provided, compensation arrangements and a list of customers for whom this would apply. The document must be updated as circumstances indicate (i.e., for additional clients, a change in the way services are offered, or how transactions are executed, etc.).

Under the direction of our CCO, we will annually review the personnel files for RR/RIA employees to ensure the following are appropriately maintained: the representative's written notice of this activity, any subsequent changes to the notice, the CCO's letter of approval or disapproval, our approval for each subsequent client added after the initial notification, appropriate blotter entries, and any other documents our Compliance Department has indicated are required in this situation.

At our Annual Compliance Meeting, all registered personnel will be required to disclose any outside investment advisory activities, or attests to the fact that they are not engaged in any such activities. Our CCO will maintain these attestations in our personnel/Form U4 files.

Annually we will review customer records for the following items: a copy of the representative's advisory contract and any discretionary agreement used, duplicate confirms and account statements regarding the away transactions, and account opening cards, including investment objectives. We will maintain documentation of all such reviews in the files, indicating the dates of the reviews, the names of the individuals who undertook the review, the scope of the review, and all findings and any applicable remedial actions.

In addition, we will maintain a separate 3280 Blotter, also known as a Section 40 Blotter, that details as much information as possible on the away transactions. Note that we do not need to book the transactions on our P/S blotter because, while we are responsible for supervising such transactions, we

do not actually execute the trades. Annually we will review the 3280 Blotter, with such review indicated by initials and dates.

Because we supervise such transactions as if the transaction had been executed on our behalf, we will in each instance of "away" transactions, conduct a common sense test to determine the appropriate level of due diligence required on the security and what suitability determinations are required.

Professional Certificates: Prohibition Against

Policy Requirements

Independent firms often solicit registered representatives to purchase certificates that commemorate passing FINRA and state-required examinations, such as the Series 7 exam, the Series 63 exam, etc.

In September 1998, FINRA issued a Regulatory & Compliance Alert, (reiterated in November 2001), stating that, *"FINRA believes that such certificates could be misused by registered representatives or misunderstood by the public. Passing a qualification exam is just one step in the registration process; customers may wrongly assume that it is the only step. Furthermore, registration status may change; a registration may be suspended, canceled or voluntarily terminated, but the presence of a certificate commemorating the passage of a qualification examination may incorrectly suggest otherwise. Because of potential problems and confusion with respect to these certificates, FINRA does not recommend or encourage the use or display of such certificates or plaques."*

Procedures and Documentation

The CCO will maintain documentation of all training efforts in the files, including dates, copies of training materials utilized, method of delivery (i.e., Annual Compliance Meeting, CE, online training, compliance alerts, etc.), and lists of the names and CRD #s of individuals who received such training.

When an individual is found to be not in compliance with this prohibition, our files will document the specific instance of noncompliance, and the follow-up measures taken, including disciplinary action, if appropriate.

Prohibition of Guarantees

Policy Requirements

FINRA Rule 2150 prohibits any individual associated with a broker-dealer from guaranteeing a customer against loss for any securities transaction or in any securities account of such customer. This prohibition against guarantees is for securities transactions affected through this broker-dealer as well as to guarantees made to an individual with an account at another broker-dealer.

Procedures and Documentation

Our designated supervisory principals will oversee the solicitation efforts of the registered personnel under their immediate supervision and ensure that the prohibition against guarantees is fully understood.

Our CCO will review, through exception reports, audits, on-site visits, training, etc., activities and correspondence to ensure that all solicitation is done in an appropriate manner and in compliance with the rules and regulations.

Our CCO may conduct random client surveys asking clients about their recollections regarding the most recent solicitations received from this firm, especially about any promissory solicitations.

The designated principal will also ensure that reviews are conducted at least annually, to ensure that affiliated personnel are not utilizing any marketing or promotional materials other than those supplied by vendors which have been approved, or those which have been internally developed and approved.

Receipt of Cash Prohibited

Procedures and Documentation

Our policy not to receive cash is strictly enforced, and any deviation from the policy will result in appropriate disciplinary action, including the possibility of immediate termination.

If an affiliated individual is found to have violated our prohibition against receiving cash, our CCO must immediately be notified and decide whether any actions are required under our Anti-Money Laundering Program, such as filing a Cash Transaction Report (CTR) or a Suspicious Activities Report (SAR).

Receipt of Checks Made Payable to the Broker-Dealer

Procedures and Documentation

Our CCO ensures that we handle all checks appropriately and do not jeopardize our net capital standing.

Unless we are approved to receive customer funds, soliciting and/or receiving checks made payable to this broker-dealer could cause a net capital violation and/or a violation of FINRA Rule 4110.

On an ongoing basis, our CCO must ensure our checks received/disbursed log is reviewed to ensure that we adhere to timely distribution. Our CCO will maintain documentation of such reviews, evidenced by initials and dates.

There should be very few checks received that have been made payable to this broker-dealer; if the situation occurs more frequently than expected, the CCO will conduct an investigation.

Receipt of Checks Payable to a Third-Party

Procedures and Documentation

Our policy is to advise clients to send checks directly to the appropriate third-party (i.e., clearing firm, insurance company, mutual fund, or issuer).

Our Controller ensures that we handle all checks appropriately and do not jeopardize our net capital standing, and that no checks are misappropriated.

Our designated supervising principals will ensure that individuals under their direct supervision advise clients correctly, have their mail sufficiently monitored to ensure that all checks received are appropriately handled, and ensure that all checks received are appropriately logged and distributed in a timely manner.

Except for checks for variable annuity purchases or exchanges, if a client sends a check directly to us and made payable to a third-party, designated principals will ensure that the check is sent to the appropriate third-party no later than noon of the following business day.

On an ongoing basis, our Checks Received and Disbursed log is reviewed to ensure that we adhere with timely distribution. Our CCO will document such reviews by initials and dates.

Checks Received for Variable Annuity Transactions

FINRA Rule 2330 permits a principal seven business days to review recommended variable annuity transactions (from the date a correct and complete application is received in the appropriate OSJ), during which time we are permitted to hold a non-negotiable customer check made payable to an insurance company, if certain conditions are documented as being in place (see further "Variable Products: Recommended Transactions" further in these WSPs).

The SEC will exempt broker-dealers with net capital requirements under $250,000, from any additional net capital or customer protection requirements under Rules 15c3-1 or 15c3-3 due solely to a failure to promptly transmit a check made payable to an insurance company for the purchase or exchange of a recommended deferred variable annuity product by noon of the business day following the date the broker-dealer received the check from the customer.

FINRA Rule 2330 states that a supervising principal must transmit the check to the insurance company or return to the client no later than noon of the business day following the date the principal determines whether to approve or deny the purchase or exchange.

Variable Annuity Checks will be entered on our Mutual Funds and Insurance Check Log, indicating when the check, along with a complete and correct application package was received by the appropriate OSJ, the date of principal approval or denial, and the date the check was forwarded to the insurance company or returned to the client.

Receipt of Securities from Clients

Procedures and Documentation

The CCO will implement and oversee procedures to enforce our prohibition against receiving securities from our customers.

Our CCO must ensure on an ongoing basis that all individuals under their direct supervision are aware of, and adhere to, this firm's policy on receipt of securities.

Clients should be advised NOT to send securities to this broker-dealer and be given instructions for appropriate forwarding (i.e., to a clearing firm, transfer agent, etc.).

[If this firm does not have a complete prohibition against accepting customer securities, approval by a designated principal will be required PRIOR to accepting securities. When such authority is given, the client will immediately be given a receipt that includes the client's name, name of our firm, date, exact names of the securities, exact certificate numbers of the securities, and number of securities.]

Any securities we receive will be immediately turned over to the appropriate principal or to our CCO, who will immediately log the entry into our Securities Received and Disbursed log and mailed to our clearing firm or other appropriate third-party.

When securities received were not immediately turned over to the appropriate principal, or were not forwarded in a timely manner, or were taken in without prior approval by Compliance or a specifically designated supervising principal, this will warrant immediate and stern disciplinary action, including possible termination.

Restricted or Control Person Securities

Procedures and Documentation

Our CCO must ensure that we have appropriate policies and procedures about restricted or control person securities and test them annually to determine if they are adequate.

- Before stock sales take place, the stock must be either in hand, or registered in an account with our clearing firm.
- If the stock is in hand, the front and back of the certificate will be reviewed for any stock encumbrances, notices or restrictions.
- It is our CCO's responsibility to ensure that stocks registered in an account with our clearing firm undergo appropriate scrutiny by the clearing firm.
- Prior to approving a new account, the supervising principal will ensure that the client is not a director, ten percent shareholder, or policy-making officer of a publicly trading company.
- If the client is one of the above, the registered representative must ensure that any request made to sell securities in the company in which the individual has control must be taken to a supervisor or our CCO before proceeding.
- If this information is missing or incomplete, the new account form will not be approved, and the initial transaction will not be permitted.

Sharing in Customer Profits or Losses

Procedures and Documentation

FINRA Rule 2150 prohibits broker-dealers and associated persons from sharing, directly or indirectly, in the profits or losses in any account of a customer of this, or any other registered broker-dealer except under the following circumstances:

- Compliance gives prior written authorization to the firm or to the associated person;
- This firm receives prior written authorization from the customer;
- Prior written guidelines indicate that this firm or the associated person share in the profits and losses in the account only in direct proportion to the financial contributions made by either the firm or the associated person;
- Under Rule 2150(c), accounts of the immediate family (i.e., parents, mother-in-law, father-in-law, spouse or any relative to whose support the firm or associated person contributes directly or indirectly) are exempt from the direct proportionate share limitation indicated above.

An associated person acting as an investment advisor (if registered as such) may receive compensation based on a share in profits or gains in an account if:

- The individual seeking such compensation obtains prior written authorization from this firm;
- The associated person obtains prior written authorization from the customer; and
- All the conditions of Advisers Act Rule 205-3 are satisfied.

Our CCO will ensure that we maintain all related documentation, including the rationale for allowing the activity, in both the client file and the personnel/Form U4 files.

Threats, Intimidation, Harassment, Profanity

Policy Requirements

Consistent with rules adopted by the Federal Trade Commission (FTC) and prior FINRA interpretations and policies, and inherent in and implied by the provisions of FINRA Rule 2010, FINRA member firms must ensure that no affiliated individual engages in communications with customers that constitute threats, intimidation, the use of profane or obscene language or calls any individuals repeatedly to annoy, abuse or harass the called party.

Procedures and Documentation

Our designated supervising principals must ensure that no individuals under their immediate supervision ever engage in threats, intimidation, harassment, profanity or other unethical and illegal manner of behavior when undertaking any business activities on behalf of this broker-dealer.

Unauthorized Transactions

Policy Requirements

Unauthorized transactions include those known as selling away (i.e., undertaking securities transactions at a broker-dealer other than this broker-dealer) as well as transactions which have not been authorized by the customer. Under certain circumstances, trading away from the firm may be permissible if permission has been granted beforehand and if we adhere to all the conditions under which such permission was granted. However, unauthorized trading in a customer account is never permissible. Unless discretion has been given to the registered representative, we may not undertake transactions in a client's account without the customer's prior knowledge and approval.

Unauthorized trading in a client account often falls under the churning prohibition - trades generated solely to generate additional commissions. Other fraudulent types of transactions include, transactions to cover previous failure to follow a customer's advice, or attempts to cover other inappropriate activities within a customer's account.

Procedures and Documentation

- Utilizing exception reports, our CCO will oversee surveillance activities designed to detect possible unauthorized transactions, ensuring that appropriate investigations are undertaken and documented.
- When hired, all registered representatives are advised of this firm's position towards unauthorized transactions; unauthorized trading is also discussed at each year's Annual Compliance Meeting.
- The regulatory prohibition against selling away without first receiving written permission from the employing broker-dealer is discussed during initial training for new hires and on an annual basis at our Annual Compliance Meeting.
- For transactions not authorized by a customer, our review procedures rely on exception report red flags that will result in immediate, in-depth scrutiny of the account and the registered representative.
- If we are unable to discern through an investigation of the customer files and representative's records whether transactions were authorized by the customer, the client will be contacted by an appropriate principal of the firm.
- Any registered employees who are found engaging in unauthorized trading activity, either away from the firm without prior written permission, or on behalf of a customer, will face sanctions ranging from giving up commissions to possible termination.

Unreasonable Charges

Policy Requirements

FINRA Rule 2122 reads as follows: "Charges, if any, for services performed, including, but not limited to, miscellaneous services such as collection of monies due for principal, dividends, or interest; exchange or transfer of securities; appraisals, safe-keeping or custody of securities, and other services shall be reasonable and not unfairly discriminatory among customers."

Procedures and Documentation

Our CCO must ensure our compliance with FINRA Rule 2122 and that all appropriate personnel receive sufficient training.

Designated supervising principals will oversee all securities-related activities engaged in by the individuals under their direct supervision and ensure they comply with Rule 2122.

Annually, our CCO will oversee a review of any charges for services to determine that they were reasonable and were not made in any unfair discriminatory nature.

Unregistered Persons: Payments

Policy Requirements

From FINRA Regulatory Notice 15-07: *"Rule 2040(a) prohibits member firms or associated persons from, directly or indirectly, paying any compensation, fees, concessions, discounts, commissions or other allowances to: (1) any person that is not registered as a broker-dealer under SEA Section 15(a) but, by reason of receipt of any such payments and the activities related thereto, is required to be so registered under applicable federal securities laws and SEA rules and regulations; or (2) any appropriately registered associated person, unless such payment complies with all applicable federal securities laws, FINRA rules and SEA rules and regulations. Rule 2040(a) directs persons to look to SEC rules to determine whether the activities in question require registration as a broker-dealer under SEA Section 15(a). The provision also prohibits payments to appropriately registered associated persons unless such payments comply with applicable federal securities laws, FINRA rules, and SEA rules and regulations."*

Procedures and Documentation

All supervising principals are responsible for ensuring that the general prohibition of Rule 2040 is understood and adhered to.

Our CCO is responsible for ensuring that all individuals responsible for paying any compensation, fees, concessions, discounts, commissions or other allowances have been made aware of the prohibitions under FINRA Rule 2040 and that they understand their responsibilities to adhere to those prohibitions.

Semi-annually, our CCO will require a review to be undertaken to ensure that any payments made to unregistered persons were permitted under Rule 2040 (i.e. retired representatives and foreign finders, both of which must meet the provisions of Rule 2040).

Whistleblower Provisions

Policy Requirements

On May 25, 2011 the Securities and Exchange Commission adopted rules to create a whistleblower program that rewards individuals who provide the agency with high-quality tips that lead to successful enforcement actions. The SEC whistleblower program, implemented under Section 922 of the Dodd-

Frank Act, is primarily intended to reward individuals who act early to expose violations and who provide significant evidence that helps the SEC bring successful cases.

Section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes the SEC to pay rewards to individuals who provide the Commission with original information that leads to successful SEC enforcement actions and certain related actions.

Under the rules, a whistleblower who provides information to the Commission is protected from employment retaliation. In addition, the rules make it unlawful for anyone to interfere with a whistleblower's efforts to communicate with the Commission, including threatening to enforce a confidentiality agreement.

The final rules do not require that employee whistleblowers report violations internally to qualify for an award. However, the rules strengthen incentives that had been proposed and add certain additional incentives intended to encourage employees to utilize their own company's internal compliance programs when appropriate to do so. For instance, the rules:

- Make a whistleblower eligible for an award if the whistleblower reports internally and the company informs the SEC about the violations.
- Treat an employee as a whistleblower, under the SEC program, as of the date that employee reports the information internally – if the employee provides the same information to the SEC within 120 days. Through this provision, employees can report their information internally first while preserving their "place in line" for a possible award from the SEC.
- Provide that a whistleblower's voluntary participation in an entity's internal compliance and reporting systems is a factor that can increase the amount of an award, and that a whistleblower's interference with internal compliance and reporting is a factor that can decrease the amount of an award.

Procedures and Documentation

Our CCO, working with Senior Management, and Counsel, will see that appropriate steps are taken to ensure that all employees and affiliated persons, registered and non-registered, are aware of and understand the "Whistleblower" rule, as well as its requirements and responsibilities.

- In determining the amount of an award, the final rules provide: first, that a whistleblower's voluntary participation in an entity's internal compliance and reporting systems is a factor that can increase the amount of an award; and, second, that a whistleblower's interference with internal compliance and reporting is a factor that can decrease the amount of an award.
- The final rule contains a provision under which a whistleblower can receive an award for reporting original information to an entity's internal compliance and reporting systems, if the entity reports information to the Commission that leads to a successful Commission action. Under this provision, all the information provided by the entity to the Commission will be attributed to the whistleblower, which means that the whistleblower will get credit -- and potentially a greater award -- for any additional information generated by the entity in its investigation.

- Under the Rule, the time for a whistleblower to report to the Commission after first reporting internally and still be treated as if he or she had reported to the Commission at the earlier reporting date is 120 days.

Documentation as to all the above will be maintained by our CCO.

Trading and Markets

Large Trader Reporting (Exchange Act Rule 13h-1)

Policy Requirements

Large traders, defined as a person whose transactions in NMS securities in aggregate equal to or exceed two million shares or $20 million during any calendar day, or 20 million shares or $200 million during any calendar month, will be required to identify themselves to the SEC through the filing of Form 13H on the EDGAR system.

Our policy and practice is to monitor: 1) the volume of trading conducted to determine if and when we become subject to filing Form 13H; and 2) our customers' accounts for activity that may trigger the large trader identification requirements of Rule 13h-1.

Upon the determination that Brighton Securities Corp is a large trader subject to the large trading reporting requirements, the firm will submit its initial Form 13H filing (i.e., within 10 days of first effecting transactions in an aggregate amount equal to or greater than the identifying activity level).

Once designated as a large trader, Brighton Securities Corp will effect the annual filing of Form 13H within 45 days of our fiscal year end and ensure that any amendments to Form 13H are timely filed. Large traders may complete an annual filing and also designate it as an amended filing. Doing so allows a large trader to satisfy both the amended 4th quarter filing as well as the annual update, as long as the submission is made within the period permitted for the 4th quarter amendment.

Upon the determination that a customer is a large trader subject to the large trading reporting requirements, Brighton Securities Corp is responsible for certain recordkeeping, reporting, and monitoring duties.

Unidentified Large Trader

The SEC has defined "Unidentified Large Trader" as "each person who has not complied with the identification requirements of Rule 13h-1 that a registered broker-dealer knows or has reason to know is a large trader."

In considering whether the broker-dealer has "reason to know" that a person is a large trader, the broker-dealer only needs to take into account transactions in NMS securities effected by or through the broker-dealer. Moreover, a broker-dealer may determine that it has no "reason to know" that a person is a large trader through two methods. First, the broker-dealer may simply conclude, based on its knowledge of the nature of its customers and their trading activity with the broker-dealer, that it has no reason to expect that any of these customers' transactions approach the identifying activity level. Second, the broker-dealer may rely on the safe harbor provision in Rule 13h-1(f). Under the safe harbor, a registered broker-dealer would be deemed not to know or have reason to know that a person is a large trader if it does not have actual knowledge that a person is a large trader and it establishes policies

and procedures reasonably designed to identify customers whose transactions at the broker-dealer equal or exceed the identifying activity level and, if so, to treat such persons as Unidentified Large Traders and notify them of their potential reporting obligations under the Rule.

Under either approach, the broker-dealer would not be required to cease trading or take other action with respect to that Unidentified Large Trader.

Consolidated Audit Trail Reporting Obligations

Broker-dealers are required to report to the CAT certain account information regarding account holders with a LTID or an Unidentified Large Trader Identification number. The reporting requirements and guidance for such reporting are set forth in the CAT Reporting Customer and Account Information Technical Specifications for Industry Members.

Procedures and Documentation

Under Exchange Act Rule 13h-1, our FINOP is responsible for the following:

If we have clients who are large traders:

- daily monitoring of the volume of clients' transactions in NMS securities to determine if and when the client is subject to large trader reporting obligations;
- maintain records for all transactions effected directly or indirectly by or through an account Brighton Securities Corp carries for a large trader or an Unidentified Large Trader;
- maintain information required by Rule 13h-1(d)(2) on Unidentified Large Traders, in addition to the Unidentified Large Trader's name, address, date the account was opened, and tax identification number(s), and reporting it to the SEC on request;
- notify any Unidentified Large Traders of their potential reporting obligations and advising them to request their LTID;
- obtain and report LTIDs to the CAT for accounts with Reportable Events;
- report large trader transaction information to the Commission upon request through the Electronic Blue Sheets systems; and
- annually, FINOP or designated principal will review a sample of transactions effected and required information to be maintained, documenting and evidencing such review by initials and dates.

If Brighton Securities Corp is a large trader:

- trading reviews and reconciliations of any and all securities transactions;
- ensure timely filing of the annual update to Form 13H as well as quarterly amendment updates when necessary, to correct information previously disclosed that has become inaccurate;
- establish threshold reporting levels that require the trader to report to a member of senior management whenever a position loses value beyond a defined limit or begins to lose value in an unanticipated manner;
- monitor defined criteria that will trigger additional or heightened scrutiny of trading activity, including but not limited to, (i) unusual or high volume of trade error account activity; (ii)

frequency of risk limit breaches; (iii) frequent requests for trade limit increases for the same counterparty; (iv) concentration of profitable or unprofitable trades, or patterns of trades and offsetting trades with the same counterparty; and (v) reasons for and patterns in remote access trading accounts;

- maintain the records required by Rule 13h-1(d)(2) for all transactions effected directly or indirectly by or through any proprietary or other account over which we exercise investment discretion; and
- Brighton Securities Corp will conduct annual supervisory reviews of the firm's trading practices, including the monitoring of trading and maintenance of records kept. Such review will be evidenced by initials and dates.

CAT (Consolidated Audit Trail)

Policy Requirements

In 2012, the SEC adopted SEC Rule 613 to create the Consolidated Audit Trail (CAT), intending to allow regulators to monitor activity in National Market System (NMS) securities. In November 2016, the SEC approved the CAT NMS Plan, which was submitted by the Self-Regulatory Organizations (SROs), which outlines a broad framework for the creation, implementation, and maintenance of the CAT.

The CAT will allow regulators to track all trades from their inception, pinpointing buyers, sellers, exchanges and brokers involved. The CAT will collect information on quotes, orders, routes, and trade execution for exchange-listed equities and options throughout the NMS, including related events such as cancellations, modifications and acceptances of an order or route.

The CAT applies to all US exchanges and firms, including Alternative Trading Systems (ATSs), registered with an SRO and unlike the Order Audit Trail System (OATS), 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 in NMS Securities, which includes NMS stocks and listed Options, and OTC equity securities, must report to CAT. The CAT NMS Plan requires each SRO to adopt rules requiring its members to comply with Rule 613 and the CAT NMS Plan, and to enforce compliance by its members in accordance with these governing regulations.

The CAT is more than an evolution of FINRA's Order Audit Trail System (OATS). It includes substantial additional requirements, including new events, options data, allocations, and linkage. Options reporting is a significant change for Firms as they implement solutions to generate the reports for the options quotes, orders, and executions. Under Rule 613, market makers will be required to submit quotation activity in addition to execution information.

There will be a period of parallel reporting to both OATS and CAT. The CAT will need to accumulate information before a retirement of OATS can be initiated.

Phased Reporting

On April 20, 2020, the SEC issued an exemptive order establishing a phased CAT reporting timeline.

Phase 2a

Phase 2a Industry Member Data would include all events and scenarios covered by OATS, which includes information related to the receipt or origination of orders, order transmittal, and order modifications, cancellations, and executions.

Phase 2a Industry Member Data would include Reportable Events for:

- Proprietary orders, including market maker orders, for eligible securities that are equities;
- Electronic quotes in listed equity eligible securities (i.e., NMS stocks) sent to a national securities exchange or FINRA's Alternative Display Facility;
- Electronic quotes in unlisted eligible securities (i.e., OTC Equity Securities) received by an Industry Member operating an interdealer quotation system (IDQS); and
- Electronic quotes in unlisted eligible securities sent to an IDQS or other quotation system not operated by a Participant or Industry Member.

Large firms and small firms that already report to OATS are required to begin reporting Phase 2a Industry Member Data to the CAT by June 22, 2020. Non-OATS reporting small firms are required to begin reporting Phase 2a Industry Member Data to the CAT by December 13, 2021.

Phase 2b

Phase 2b Industry Member Data would include data related to eligible securities that are options and related to simple electronic option orders, excluding electronic paired option orders.

Large firms are required to begin reporting Phase 2b Industry Member Data to the CAT by July 20, 2020, whereas small firms are required to begin by December 13, 2021.

Phase 2c

Phase 2c Industry Member Data would include data that is related to eligible securities that are equities and that is related to:

- Allocation Reports as required to be recorded and reported to the Central Repository;
- Quotes in unlisted eligible securities sent to an IDQS operated by a CAT Reporter (reportable by the Industry Member sending the quotes);
- Electronic quotes in listed equity eligible securities (i.e., NMS stocks) that are not sent to a national securities exchange or FINRA's Alternative Display Facility;
- Reporting changes to client instructions regarding modifications to algorithms;
- Marking as a representative order any order originated to work a customer order in price guarantee scenarios, such as a guaranteed VWAP;
- Flagging rejected external routes to indicate a route was not accepted by the receiving destination;
- Linkage of duplicate electronic messages related to a Manual Order Event between the electronic event and the original manual route;
- Special handling instructions on order route reports;

- Quote identifier on trade events;
- Reporting of large trader identifiers (LTIDs) (if applicable) for accounts with Reportable Events that are reportable to CAT as of and including Phase 2c;
- Reporting of date account opened or Account Effective Date (as applicable) for accounts and reporting of a flag indicating the Firm Designated ID type as account or relationship;
- Order effective time for orders that are received by an Industry Member and do not become effective until a later time;
- The modification or cancellation of an internal route of an order; and
- Linkages to the customer orders(s) being represented for representative order scenarios, including agency average price trades, net trades, aggregated orders, and disconnected Order Management System–Execution Management System scenarios, as required in the Industry Member Technical Specifications.

Large firms are required to report Phase 2c Industry Member Data by April 26, 2021 and small firms by December 13, 2021.

Phase 2d

Phase 2d Industry Member Data includes with respect to the eligible securities that are options:

- Simple manual orders;
- Electronic and manual paired orders;
- All complex orders with linkages to all CAT-reportable legs;
- LTIDs (if applicable) for accounts with Reportable Events for Phase 2d;
- Date account opened or Account Effective Date (as applicable) for accounts with an LTID and flag indicating the Firm Designated ID type as account or relationship for such accounts;
- Allocation reports as required to be recorded and reported to the Central Repository;
- The modification or cancellation of an internal route of an order; and
- Linkage between a combined order and the original customer orders.

Both large and small firms are required to report Phase 2d Industry Member Data by December 13, 2021.

Phase 2e

Phase 2e Industry Member Data includes Customer Account Information and Customer Identifying Information, other than LTIDs, date account opened/Account Effective Date and Firm Designated ID type flag previously reported to the CAT.

Both large and small firms are required to report Phase 2e Industry Member Data by July 11, 2022.

Procedures and Documentation

The designated principal (Our Head Trader, or CCO) ensures our compliance with all requirements under CAT.

We have verified our clearing firm's CAT reporting capabilities and have entered into a written agreement on the responsibilities of this firm and of the clearing firm regarding CAT reporting. The designated principal conducts continuing due diligence of our clearing firm's capabilities and ensures that all required reporting is effected in a timely manner. (Reporting through our clearing firm does not absolve us from our responsibilities as the reporting firm.)

CAT Reporting

CAT is not a real-time reporting system and does not change any other FINRA trade reporting rule (i.e., the 10-second rule), nor do the CAT rules impact the amount of time allowed to write a customer order ticket or perform order processing. For each day's transactions, CAT trade data can be transmitted during or after market hours but not later than 8:00 a.m. on the following business day. Available mechanisms to report to CAT include SFTP and the CAT Reporter Portal.

CAT Reporting Verification

Whether we self-report, use the services of a third party (i.e., clearing firm) or report via any combination thereof, we will access the CAT NMS website at www.catnmsplan.com to perform daily reviews of all reported data and verify such data against our transaction blotters, evidencing such review by initials and dates. Any exception uncovered by these reviews, such as a rejected transaction or late submission, will be brought to the attention of our Head Trader or CCO for appropriate action. We will maintain appropriate documentation of any such action.

Our Head Trader, or an appropriate designee will conduct daily reviews of all reported data, available on the website, as detailed in the following reports.

- Firm Order Report FORE Status Notification
- Reporting Statistics
- Order/Trade Match Statistics
- Route/NMC Match Statistics
- Interfirm Route Match Statistics
- All reportable order entry ROE-related reports
- All unmatched execution/routing reports

Rejected Transactions

Our Head Trader, or our CCO, will periodically (no less than quarterly) review rejected transactions, documenting that all applicable repairs have been made to the rejections.

FINRA's CAT Report Card will be reviewed monthly, as discussed in the following section.

In instances where we direct transactions elsewhere than our clearing firm (i.e., an ECN), we will go to the CAT website, pull up the reported data and verify it against our confirms or transaction blotter, evidencing such review by initials and dates.

CAT Report Cards

A CAT Compliance Monthly Report Card is available through the CAT Reporter Portal.

The CAT Compliance report card is a monthly status report on the number and percentage of (a) late CAT submissions, (b) unmatched execution reports, (c) unmatched NASDAQ Execution System route reports, and (d) unrepaired repairable rejected order events.

Our designated principal will obtain our CAT compliance report card each month.

Clock Synchronization Supervisory Procedures

CAT rules require that all computer and mechanical clocks (i.e., time-stamping devices) be synchronized.

Firms are required to synchronize Business Clocks, at a minimum, to within 50 milliseconds of the time maintained by the National Institute of Standards and Technology (NIST) and to maintain such synchronization. Business clocks that are solely used for manual CAT events or for the time of allocation on allocation reports must be synchronized, at a minimum, to within a one second tolerance.

Our designated principal checks all clocks daily, documents and maintains our synchronization procedures for Business Clocks, and keeps a log of the time when our Business Clocks are synchronized as well as the results of the synchronization process. This log also notes occurrences when our Business Clock misses the applicable tolerances.

The log must include results for a period of not less than five years ending on the then current date, or for the entire period for which we have been required to comply, if less than five years. We must also certify our compliance with these clock synchronization requirements and report violations according to the requirements that will be established by CAT.

We must record and report the actual time that an order is received from a customer or another member firm, even if the order is received outside of the main office by a registered representative or an independent contractor. An order is received when all the specific details of the orders are understood and the order arrives at a place where it can be handled or executed.

Registered representatives and independent contractors who immediately, electronically or otherwise, transmit their orders to the main office may use the time they transmitted the order, as recorded by the person who receives the order, as order receipt time; thus, they would not have to maintain a synchronized clock that displays or records time in seconds at their location.

However, if any delay occurred in transmitting the order to us or if we did not agree to maintain the proper times, the independent contractor or the registered representative in the branch office would have to maintain a synchronized clock for recording the times required under the CAT rules.

Where we use a third party (i.e., another broker-dealer or a financial service bureau) to report on our behalf, we must have our own synchronized source of time when orders are not immediately transmitted to the third party or when temporary technical breakdowns occur.

Clock Synchronization Process

For manual synchronization, our logs will reflect each time during a day that our clocks are synchronized, indicating any clocks with synchronization problems and what was done to address such problems. Under the supervision of our CCO, we will review these logs quarterly to determine that they are appropriately maintained and that all problems are addressed and corrected.

CAT Recordkeeping Compliance

Information required to be reported to the CAT must be maintained in accordance with SEC Rule 17a-4(b), which states that these records must be preserved for at least three years, the first two years in an accessible place.

The information to be maintained includes the following:

- An identification of each registered person who receives an order from a customer;
- An identification of each registered person who executes the order; and
- When we originate an order that is transmitted manually to another department within this broker-dealer, an identification of the department that originated the order.

Records may be retained in either electronic or paper format. SEC Rule 17a-4 also allows for a lesser retention period for reported information if the firm has the ability to reproduce the submission upon request from the regulator.

Annually our CCO will undertake a review to determine whether we appropriately maintain all required information for CAT Order Events data.

Our CCO or designated principal will oversee our compliance with CAT and ensure the maintenance of all associated records. Record maintenance also includes all records generated by our clearing firm or third-party vendor. Our CCO must know how to obtain such records (i.e., downloading) from each appropriate party and maintain them in the files.

CAT Announcements (CAT NMS Plan Website)

The designated principal must ensure that we receive important messages posted to CAT website and that the information is disseminated as required. Such notices include information on outages, processing delays, reminders and new publication disclosures.

Daily review of the website https://www.catnmsplan.com is required. We will maintain a CAT Announcement Log of such website review, which is reviewed monthly by our CCO.

In addition, our CCO will maintain and appropriately distribute materials found on the website.

Resources for CAT Information: the FINRA CAT Helpdesk is available by phone at 888-696-3348 or email at help@finracat.com.

Data Security

Procedures and Documentation

Our Head Trader, or our CCO in lieu of our having a designated Head Trader, will ensure that we appropriately maintain all required CAT data.

Our CCO will ensure that we maintain appropriate records of the CAT Order Events recorded under FINRA Rule 7440, in accordance with SEC Rule 17a-4(b) for three years, either on micrographic media or by means of electronic storage media in accordance with the conditions set forth in SEC Rule 17a-4(f). The information to be maintained includes the following:

- An identification of each registered person who receives an order from a customer;
- An identification of each registered person who executes the order; and
- When we originate an order that is transmitted manually to another department within this broker-dealer, an identification of the department that originated the order.

Annually our CCO will undertake a review to determine whether we appropriately maintain all required information for CAT Order Events data.

Our Cybersecurity Committee, in addition to our Cybersecurity and Incident Response procedures, will consider the following when developing procedures for data security as it pertains to CAT reporting:

- Establish controls to ensure only required and appropriate data is reported to the Plan Processor or service providers, including methods for identifying breaches of data and defining required procedures if data leakages do occur;
- Consideration in relation to the error handling and corrections processes, such as which staff may be required to access information to address remediation;
- Monitor for data breaches, including internal and external incidents;
- Define which roles require access for critical path reporting and error handling and corrections;
- Mandatory training across all staff that are part of the CAT submission process for security procedures and data handling; and
- Test CAT reporting systems for process integrity, protection of data transmission, and storage.

Eligible Securities

Firms will be required to report to the CAT reportable events involving an eligible security. Under the CAT NMS Plan, “eligible security” includes all equities and options that are NMS securities and OTC equity securities.

For eligible securities, the types of events that will need to be reported will include:

- All proprietary orders, including market maker orders;
- All street side representative orders (both agency and proprietary);
- Electronic listed quotes sent to an exchange or the Alternative Display Facility;
- Unlisted quotes received by a broker-dealer operating an inter-dealer quotation system;
- 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;

- 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 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;
- Electronic receipt of an order; and
- Electronic routing of an order.

Retirement of OATS

CAT Reporters who are also OATS Reporters should be cognizant of the fact that OATS will eventually be retired. However, prior to sunsetting OATS, the CAT would need sufficient data to ensure that regulators can adequately conduct surveillance and investigations of Firms. Hence, it is anticipated that CAT reporters who are also OATS reporters would have to report both OATS and the CAT for a period of time. OATS will be retired after the error rates reach an acceptable level.

Confirmations

Procedures and Documentation

Confirmation disclosures are regulated under FINRA Rule 2232 and Rule 10b-10 under the Securities Exchange Act of 1934.

Both FINRA Rule 2232 and Rule 10b-10 require that we, or someone acting on our behalf, send to a customer, at or before the completion of each transaction, notification that discloses the following:

We must disclose whether we are acting as: a broker for the customer; a dealer for our own account; a broker for some other person; a broker for both the customer and some other person - AND - in any case in which we act as a broker for the customer, or for both the customer or some other person, we must ALSO disclose:

- Either the name of the person from whom the security was purchased, ***or***
- To whom the security was sold for such customer, ***and***
- The date and time of such transaction, expressed to the second,
- The fact that such information will be furnished upon customer request,
- The source and amount of any commission or other remuneration received or to be received by such member about the transaction, and
- A reference, and a hyperlink if the confirmation is electronic, to a web page hosted by FINRA that contains publicly available trading data for the specific security that was traded.

FINRA Rule 2232 requires member firms to disclose additional transaction-related information to retail customers for trades in certain fixed income securities. Specifically, amended Rule 2232 requires a member to disclose the amount of mark-up or mark-down it applies to trades with retail customers in

corporate or agency debt securities if the member also executes an offsetting principal trade in the same security on the same trading day.

Also, members are required to disclose two additional items on all retail customer confirmations for corporate and agency debt security trades: (1) a reference, and a hyperlink if the confirmation is electronic, to a web page hosted by FINRA that contains publicly available trading data for the specific security that was traded, and (2) the execution time of the transaction, expressed to the second.

In addition, a confirmation shall include the mark-up or mark-down for the transaction, to be calculated in compliance with Rule 2121, expressed as a total dollar amount and as a percentage of the prevailing market price if:

1. we are effecting a transaction in a principal capacity in a corporate or agency debt security with a non-institutional customer, and
2. we purchased (sold) the security in one or more offsetting transactions in an aggregate trading size meeting or exceeding the size of such sale to (purchase from) the non-institutional customer on the same trading day as the non-institutional customer transaction. If any such transaction occurs with an affiliate of ours and is not an arms-length transaction, we are required to "look through" to the time and terms of the affiliate's transaction with a third party in the security in determining whether the conditions of this paragraph have been met.

We shall not be required to include the disclosure specified in the paragraph above if:

1. the non-institutional customer transaction was executed by a principal trading desk that is functionally separate from the principal trading desk that executed the purchase (in the case of a sale to a customer) or our sale (in the case of a purchase from a customer) of the security, and we had in place policies and procedures reasonably designed to ensure that the functionally separate principal trading desk through which the purchase or sale was executed had no knowledge of the customer transaction; or
2. we acquired the security in a fixed-price offering and sold the security to non-institutional customers at the fixed price offering price on the day the securities were acquired.

For all transactions in corporate or agency debt securities with non-institutional customers, we shall also provide on the confirmation: (1) a reference, and hyperlink if the confirmation is electronic, to a web page hosted by FINRA that contains Trade Reporting And Compliance Engine (TRACE) publicly available trading data for the specific security that was traded, in a format specified by FINRA, along with a brief description of the type of information available on that page; and (2) the execution time of the customer transaction, expressed to the second.

For all transactions in municipal securities with non-institutional customers, MSRB Rule G-15 requires firms to disclose additional transaction-related information. In addition to the FINRA Rule 2232 and Rule 10b-10 information described above, we shall also ensure that confirmations for municipal securities include: (1) the trade date and execution time, (2) details of the transaction including any markups or markdowns, expressed as both a dollar amount and a percentage of the prevailing market price (as further discussed under Municipals below) and (3) a reference and, if the confirmation is electronic, a

hyperlink to a webpage on EMMA (Electronic Municipal Market Access) that contains publicly available trading data for the specific security that was traded, along with a brief description of the type of information available on that page. Transactions in municipal securities are discussed more fully below.

Our CCO ensures that all confirmations generated for securities transactions undertaken by us contain the appropriate information. This is the case whether we generate the confirmations or another broker-dealer, such as a clearing firm, generates them on our behalf.

Our CCO will ensure that confirmations adhere to all the requirements of FINRA Rule 2232, Rule 2121, SEC Exchange Act Rule 10b-10, and MSRB Rule G-15, even in those instances where our clearing firm sends confirmations out on our behalf (in which case, duplicate copies are sent to this firm).

Our CCO will review our daily trade blotter in respect of all trades and address concerns so identified or raised by registered representatives or clients regarding the contents of confirmations generated for securities transactions taken by us, will review those referenced confirmations as to which any concern was raised, and will spot check a subset of each day's trades by reviewing confirmations in respect of a subset thereof for compliance with all requirements applicable to the reported transaction. Such selection of confirmations will be for various types of transactions and registered representatives, to assess the related confirmations for compliance with all requirements applicable to the reported transaction and to ensure that confirmations are being produced in conformity with the daily trade blotter. Our CCO will endeavor to review the daily trade blotter and perform spot checks no less frequently than weekly, and shall designate a responsible person to both review the daily trade blotter and perform the trade confirmations spot checks in the case of her absence or inability to do so for a period in excess of three trading days. Our CCO will document these two types of reviews (based on any report of non-conformity by a client or registered representative, or based on review of the daily trade blotter and confirmations spot checks), reporting concerns raised and any compliance exceptions. Our CCO will compile such records of review into a report no less frequently than monthly for further review by the CEO. If, based on the monthly or any interim reports, the CEO is not satisfied with confirmations compliance, the CEO will direct additional internal review or engage an external expert.

Payment for Order Flow

Disclosure regarding any payment for order flow received by this broker-dealer is also required on confirmations. In instances where we have such arrangements, we must review all confirmations for compliance, evidenced by initials and dates.

Under the supervision of our CCO, we will review confirmations on an on-going regular basis for all required content, including a comparison to order tickets, and compile reports of such review no less frequently than monthly.

Error Accounts

Procedures and Documentation

Our CAO ensures appropriate handling and review of our error account.

The CAO ensure transactions are not added to our error account to cover-up an unethical or illegal action, and that we comply with all policies and procedures regarding our error account.

At least quarterly, our CAO will review our error account records to ensure that no so-called round trips (i.e., a buy and sell of the same security) have occurred, and that there are no instances of moving one transaction resulting in a long or short securities position carried in this account for a period. The placement of one-sided transactions and securities positions in an error account may subject our capital funds to market risk, and may result in a net capital violation. Any such concerns will be discussed with our FINOP to determine whether a net capital violation has occurred.

Our CAO will determine that all transactions transferred by any means from a customer account to an error account have not been done to further, or cover, any violation, as those are not permitted to be considered bona fide corrections, cancellations or errors.

Exception Reports

Direct Business

Policy Requirements

Exchange Act Rule 17a-4 regarding books and records requires that broker-dealers retain "all reports generated to review unusual activity in customer accounts," generally known as exception reports.

Procedures and Documentation

Our CCO ensures that we have sufficient and appropriate exception reports to detect any possible inappropriate actions undertaken by our registered personnel, and that we utilize whatever systems possible to run in-house exception reports assisting our compliance efforts.

These exception reports should include, but not be limited to, variable and mutual fund switching activities, sales near breakpoint, B and C share transactions over a certain dollar amount (i.e., B shares of $50,000 or more and C shares of $100,000 or more), variable product replacements, increased activity in customer files or any patterns that may be red flags of fraudulent activities.

Our CCO, working with other appropriate principals of the firm and IT personnel, or outside vendors, will ensure that appropriate reports are developed, given our specific products/services and the activities we should monitor.

All exception reports will be reviewed based on a schedule determined by the CCO in collaboration with Senior Management.

Exchange Act Rule 17a-4 requires that broker-dealers retain all exception reports for a period of 18-months after generation of the report. We will retain all exception reports and, in addition, will document any corrective measures taken based on these reports.

Rule 17a-4 permits the use of vendors when exception reports are stored off-site and are not maintained on premises at the broker-dealer. If we do not maintain an exception report on-site, the designated principal must ensure that the report can be duplicated upon request by a regulator, or can be reconstructed to accurately show the information utilized on any given date for any specific oversight activity.

Introducing Firm

Policy Requirements

Exchange Act Rule 17a-4 regarding books and records requires that broker-dealers retain "all reports generated to review unusual activity in customer accounts," generally known as exception reports.

Procedures and Documentation

- **Clearing Firm Exception Reports** - Our CCO, working with Senior Management, Operations and other appropriate departments or individuals, must ensure that we receive from our clearing firm all available assistance in monitoring activities and ensuring compliance.

  FINRA Rule 4311 requires that our clearing firm submit to us annually a list of all exception reports it issues, or is able to issue. We must respond each year, indicating the reports we want to have supplied to us. We must ensure that the reports requested are sufficient to undertake appropriate surveillance activities to detect and deter fraudulent or noncompliant activities, including, but not necessarily limited to, address changes, sudden increased activity in an account, transactions over a certain monetary amount, large debt balances, canceled and rebill reports, churning, etc.

- **Internally Generated Exception Reports** - For securities transactions not made through our clearing firm, our CCO must ensure that we utilize all possible systems to run in-house exception reports enabling us to have appropriate tools for our compliance efforts. These exception reports should include, but not be limited to, variable and mutual fund switching activities, sales near breakpoint, B and C share transactions over a certain dollar amount (i.e., B shares of $50,000 and more, and C shares of $100,000 and more), variable product replacements, increased activity in customer files, or any patterns that may be red flags of fraudulent activities.
- Our CCO, working with other appropriate principals of the firm, must ensure that appropriate internal reports are developed, given the businesses in which we are engaged where our clearing firm cannot help. Furthermore, our CCO must ensure that trained individuals utilize these exception reports to undertake investigations of possible fraudulent or non-compliant activities.
- Our CCO will ensure that we retain all exception reports for a period of 18-months after generation of the report and will document any corrective measures taken based on these reports.
- Rule 17a-4 permits the use of vendors where reports may be stored off-site and not maintained on the premises of the broker-dealer. If we do not maintain an exception report on-site, our CCO must ensure that the report can be duplicated upon request by a regulator, or can be

reconstructed to accurately show the information utilized on any given date for any specific oversight activity.

Fair and Accurate Credit Transactions Act (FACT Act) Red Flag Rule

Policy Requirements

Section 114 of the FACT Act requires a written program to detect, prevent and mitigate identity theft for certain accounts. The rules apply to any "financial institution" or "creditor" that holds a "covered account".

FINRA has created a template for the FTC FACT Act Red Flags Rule which states "FINRA anticipates that most member firms will be required to prepare an ITPP (Identity Theft Prevention Program)."

It is important, therefore, that firms indicate in their WSPs that they have decided whether they are required to comply with the FACT Act's Section 114. (Based on the definitions offered by FINRA in their template, as reproduced below)

The development of an appropriate Red Flag Identity Theft Program, should evaluate the following:

- The BD's accounts subject to risk of identity theft;
- The methods utilized to open these accounts;
- The methods provided to access these accounts;
- The BD's size, location and customer base; and
- Any previous experience with identity theft.

Effective November 20, 2013, the SEC added new subpart C ("Regulation S-ID: Identity Theft Red Flags") to part 248 of the SEC's regulations. The following language is taken from Release Nos. 34-69359, IA-3582, IC-30456; File No. S7-02-12, RIN: 3235-AL26, Identity Theft Red Flags Rules: *"The Commissions (CFTC and SEC) recognize that entities subject to their respective enforcement authorities, whose activities fall within the scope of the rules, should already be in compliance with the Agencies' joint rules. The rules we are adopting today do not contain requirements that were not already in the Agencies' rules, nor do they expand the scope of those rules to include new categories of entities that the Agencies' rules did not already cover."*

Procedures and Documentation

Our CCO, Senior Management and, if applicable, our Board of Directors and Counsel, must determine whether we fall under the requirements of Section 114 of the FACT Act.

If we are required to comply with Section 114 of the FACT Act, our CCO will work with our Board of Directors and Counsel, if applicable, or Senior Management to develop, implement and administer the program.

Our CCO will review FINRA's "FTC FACT Act Red Flags Rule Template" for further guidance to determine if we are required to comply with Section 114 and to obtain guidance in developing an appropriate Identity Theft Protection Program ("ITPP").

Our CCO must ensure that we do the following:

- Develop an Identity Theft Program designed to prevent, detect and mitigate identity theft for new and existing accounts;
- Put into place appropriate policies and procedures to assess the validity of an address change request that is followed closely by a request for an additional or replacement card; and
- Develop policies and procedures to respond to notices from credit reporting agencies regarding address discrepancies.

Financial Institution. *Your firm is a "financial institution" if it provides, either directly or indirectly through your clearing firm, consumer "transaction accounts," which are accounts that allow account holders to make withdrawals for payment or transfer of funds to third parties by telephone transfers, checks, debit cards or similar means. Since "consumer" is defined as an individual, a firm without individuals as clients would not be a financial institution under this definition.*

(✓) We do fall under the definition of a financial institution.

( ) We do not fall under the definition of a financial institution.

Creditor. *Your firm is a "creditor" if it regularly extends, renews or continues credit (such as margin) or arranges for its extension, renewal or continuation (such as through a clearing firm). A firm that is not a financial institution because it has only institutional customers can still be a creditor if it extends credit, or arranges to extend credit, for any of its customers NOTE: FINRA has stated in Notice 08-69: The term "creditor" means any person who regularly extends, renews, or continues credit or regularly arranges for the extension, renewal or continuation of credit. Therefore, if a member firm, acting as either an introducing or clearing firm, provides a customer with margin – a form of credit – it will be deemed to be a creditor for purposes of the Red Flags Rule.*

( ) We fall under the definition of a creditor.

(✓) We do not fall under the definition of a creditor.

Covered Accounts. *If your firm is either a financial institution or a creditor, you must then analyze whether it offers "covered accounts," which are any accounts that either 1) your firm offers primarily for personal, family or household purposes and involve multiple payments (such as credit card, margin, checking or savings accounts), or 2) involve a reasonably foreseeable risk from identity theft to customers or the safety and soundness of your firm.*

( ) We do offer covered accounts.

(✓) We do not offer covered accounts.

Section 114 of the FACT Act Compliance Requirements

( ) We have determined that we do not maintain covered or transaction accounts (as defined above by FINRA). Quarterly our CCO will review this determination, and maintain documentation of the review in the files. If, at any time, our CCO determines that we do fall within the requirements of complying with Section 114 of the FACT Act, we will immediately put appropriate policies and procedures into place, as required.

(✓) We have determined that we do fall under the definition of financial institution and/or creditor, and we maintain covered and/or transaction accounts (as defined above by FINRA), we have put the following policies and procedures into effect.

Our CCO must ensure that we maintain a written Identity Theft Prevention Program to prevent, detect and mitigate identity theft about certain covered accounts. This Program will be developed to address our size, complexity/risk parameters and nature of operations, and will include the following four essential features:

1. We will identify and incorporate relevant patterns, practices, procedures and specific forms of activity that may be red flags signaling possible identity theft into our program. These red flags will reflect the nature of our business, regulatory guidance and our experience with clients.
2. We will ensure that effective procedures are in place to respond to any red flags, including monitoring accounts for evidence of identity theft, contacting the customer, calling law enforcement, changing passwords or other security devices, closing an account, etc.
3. We will periodically review the program and update it appropriately to reflect changes in risk of identity theft or risk to the safety and soundness of this firm. We will refer to the FACT ACT "Red Flag Rule" template offered by FINRA in the formulation of our policies and procedures.

- Our CCO will obtain approval of our initial and any amended Program from our Board of Directors, or from our CEO if we do not have a Board of Directors.
- At least annually, our CCO will report to the Board of Directors, if applicable, or to Senior Management on our compliance with the red flag regulations.
- Our CCO must ensure that applicable affiliated personnel receive appropriate training to allow them to implement the Program effectively. Our CCO will maintain documentation of such training in our files.
- Our CCO must also ensure that we exercise appropriate and effective oversight of arrangements with third-party and affiliated service providers.

The released FAQs of the FACT Act are available online at https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20090611a1.pdf , which provides Red Flag Guidance.

Limitations on Affiliate Marketing (per Regulation S-AM)

Policy Requirements

The Securities and Exchange Commission's Regulation S-AM under the Fair Credit Reporting Act ("FCRA") as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act") and under the Securities Exchange Act of 1934, the Investment Company Act of 1940, and the Investment Advisers Act of 1940 allows a consumer, in certain limited situations, to block affiliates of covered persons (i.e., brokers, dealers, investment companies, investment advisers registered with the Commission, and transfer agents registered with the Commission) from soliciting a consumer based on eligibility information (i.e., certain financial information, such as information regarding the consumer's transactions or experiences with the covered person) received from the covered person. Unlike Regulation S-P, which implements the financial privacy provisions of the Gramm-Leach-Bliley Act, Regulation S-AM does not limit a covered person's ability to share information. Instead, it limits a covered person's ability to use eligibility information received from an affiliate to solicit a consumer for marketing purposes.

Under Regulation S-AM, a covered person is prohibited from using eligibility information that he or she receives from an affiliate to make a marketing solicitation unless: (1) the potential marketing use of that information has been clearly, conspicuously and concisely disclosed to the consumer; (2) the consumer has been provided a reasonable opportunity and a simple method to opt out of receiving the marketing solicitations; and (3) the consumer has not opted out.

Procedures and Documentation

Our CCO is responsible for ensuring that we are in compliance with Regulation S-AM.

Depending upon the applicability of Regulation S-AM requirements to our broker-dealer, our CCO will comply with the following (as spelled out in detail and available at http://www.sec.gov/divisions/marketreg/tmcompliance/34-60423-secg.htm).

- Notice and Opt Out Requirement
- Scope and Duration of the Opt Out
- Contents of the Opt Out Notice; Consolidated and Equivalent Notices
- Reasonable Opportunity to Opt Out
- Reasonable and Simple Method of Opting Out
- Delivery of Opt Out Notices
- Renewal of Opt Out Elections

Fair Prices and Commissions: FINRA Rule 2121

Policy Requirements

If a member buys for his own account from his customer, or sells for his own account to his customer, or acts as an agent for his customer, in "listed" or "unlisted" securities, he/she shall buy or sell at a price which is fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit.

Procedures and Documentation

Our CCO will ensure our compliance with Rule 2121, and that appropriate personnel receive all necessary training to ensure that all appropriate individuals have access to Rule 2121 "Mark Up Policy" Supplementary Materials .01 and .02

The SEC's approval of an amendment to FINRA Rule 0150 codified the application of FINRA Rule 2121 and its Supplementary Material .01 and .02 (which govern mark-ups and commissions), to transactions in exempted securities that are government securities.

FINRA Rule 2121's "Mark Up Policy" Supplementary Materials .01 and .02 regarding markups will be utilized as a guideline, in all compliance reviews. In addition, we will review the daily blotters to determine that we have not violated Rule 2121. Our CCO will determine whether an exception report should be utilized to review for compliance with Rule 2121, as well as ensure that we undertake an annual review, consisting of a random sampling of commissions charged and/or mark-ups utilized.

Markups/Markdowns

Policy Requirements

FINRA Rule 2121 includes the 5% Guideline, the traditional analysis benchmark for equity transactions. While the 5% Guideline is not as applicable to other products where industry standards must also be considered, Rule 2121 should still be taken into consideration.

The SEC states that the antifraud provisions of the federal securities laws prohibit excessive markups to retail customers without proper disclosure, and that rules of the SROs prohibit excessive markups on the sale of securities in a principal transaction, regardless of whether the markup is disclosed. The SEC further states that it has consistently held that markups of more than five percent above the prevailing market price are fraudulent in the sale of equity securities, and that markups in the sale of debt securities generally are expected to be lower than those on equities. For further information and a detailed discussion of case law in markups, background and application of the FINRA's Markup Policy and MSRB Rules G-17 and G-30, obtain a copy of SEC Release No. 34-24368 (April 21, 1987).

Markups over five percent may be considered excessive by regulators, but markups over 10 percent are usually considered fraudulent. Furthermore, there are instances where markups of less than five percent may be deemed excessive upon consideration of all relevant factors.

Several factors affect the five percent guideline:

- The type of security - stocks generally carry higher markups than bonds where the industry standard test should carry greater weight than the 5% guideline;
- Availability of a security in the marketplace - thinly traded stocks requiring more effort to acquire may carry a justifiably higher markup than readily available stocks;

- The price of a security - most lower priced securities may reasonably carry higher percentage markups than higher priced securities due to the added expense involved in trading and handling smaller capitalized, less-liquid securities;
- The amount of money being invested - investments limited to small principal amounts will generally involve higher markups to cover handling, clearance and settlement costs;
- Disclosure - while disclosure to a customer of the amount of commission or markup charged will not necessarily justify charging an unfair price, it will generally be considered by FINRA as a relevant factor when assessing the fairness of a price;
- Markup patterns - unfair pricing will more likely be deemed unfair pricing by regulators than high markups on isolated transactions; and
- The nature of securities business - variances of facilities and services are relevant factors considered by regulators when determining price fairness.

All registered personnel are advised that, any question of whether a commission/markup violates FINRA's 5% Guideline, the matter should immediately be brought to the attention of a principal of the firm. Furthermore, any markups on products other than equities should be cleared with a supervising principal. Our review of customer account files will include looking for justifications on any markups deemed to be out-of-the-ordinary.

Principal vs. Agency Transactions

Broker-dealers can act either as a broker-agent, executing orders on an agency basis for customers on an exchange or in the OTC market, or as a dealer-principal, buying securities in the name of the broker-dealer and selling securities to customers from its own inventory.

At, or before completion of, a securities transaction, customers must be advised of the broker-dealer's role in the transaction (i.e., agent or principal). In addition, the broker-dealer must disclose whether it acted as agent for the parties on both sides of a transaction due to the potential conflict of interest.

Agent broker-dealers typically charge commissions that are disclosed on the confirmations. As an agent, a broker-dealer may purchase a security in the appropriate market on behalf of its client, execute a riskless principal transaction whereby the firm purchases the security from another firm or customer after it has received an order from a customer. It then sells the security to the customer.

A riskless principal transaction is like an agency trade because the broker-dealer acts as an intermediary only and assumes no market risk. For the broker-dealer's limited role in the transaction, it is compensated by a markup or markdown from its cost, based on the price paid to acquire the shares.

In neither the agency nor the riskless principal transaction may a broker-dealer include its profit as part of a net price. For agency transactions, the commission must be indicated on the client confirm; for riskless principal transactions, the markup or markdown must be indicated on internal records.

When a broker-dealer acts as a principal, the firm is permitted to markup or markdown the price of a security, including the markup or markdown in the total price of the security.

The computation of a markup on the sale to a customer or a markdown on a purchase from the customer is affected by various factors, including, but not limited to

- The type of security;
- The level of difficulty in obtaining the security; and
- The size of the transaction.

When a broker-dealer sells a security from its own inventory (i.e., a security that the broker-dealer owns), the price must be based on the current market price for the security rather than the original cost of the security when the broker-dealer initially purchased it.

Additional Transaction-Related Disclosures

FINRA Rule 2232 requires member firms to disclose additional transaction-related information to retail customers for trades in certain fixed income securities. Specifically, Rule 2232 requires a member to disclose the amount of mark-up or mark-down it applies to trades with retail customers in corporate or agency debt securities if the member also executes an offsetting principal trade in the same security on the same trading day.

Where mark-up disclosure is provided on customer confirmations, Rule 2232(c) requires firms to express the disclosed mark-up as both a dollar amount and a percentage of the prevailing market price.

In January 2019, FINRA released its 2019 Annual Risk Monitoring and Examination Priorities Letter, where FINRA stated its priority to review for any changes in firms' behavior that might be undertaken to avoid their mark-up and mark-down disclosure obligations.

Procedures and Documentation

Our CCO must ensure that appropriate surveillance tools and activities are in place to detect whether any inappropriate markups or markdowns have been charged.

Our designated supervising principals are responsible for ongoing oversight of all markup or markdowns charged to clients.

G-48(b) Transaction Pricing. The broker, dealer, or municipal securities dealer shall not have any obligation under Rule G-30(b)(i), when dealing with SMMPs, to act to ensure that transactions meeting all of the following conditions are affected at fair and reasonable prices:

- The transactions are non-recommended secondary market agency transactions.
- The broker, dealer, or municipal securities dealer's services have been explicitly limited to providing anonymity, communication, order matching, and/or clearance functions.
- The broker, dealer, or municipal securities dealer does not exercise discretion as to how or when the transactions are executed.
- Designated supervisory principals must review all principal transactions daily to determine the appropriateness of the markup or markdown.

- Markups/Markdowns more than 5% require approval by a designated supervising principal prior to such charges being made.
- The designated principal will ensure that all markup/markdown reviews are maintained in a file, evidenced by initials and dates.

Markups/Markdowns: Debt Securities Transaction (Except Municipal Securities)

Policy Requirements

Supplementary Materials to FINRA Rule 2121 apply to debt securities transactions except municipal securities.

FINRA Rule 2232 requires member firms to disclose additional transaction-related information to retail customers for trades in certain fixed income securities. Specifically, Rule 2232 requires a member to disclose the amount of mark-up or mark-down it applies to trades with retail customers in corporate or agency debt securities if the member also executes an offsetting principal trade in the same security on the same trading day.

Where mark-up disclosure is provided on customer confirmations, Rule 2232(c) requires firms to express the disclosed mark-up as both a dollar amount and a percentage of the prevailing market price.

Procedures and Documentation

Our CCO must ensure that all appropriate supervising principals have a full awareness and understanding of both Rule 2121 Supplementary Materials 01 and 02 and Rule 2232 in terms of policies covering markups/markdowns on debt securities.

No less frequently than quarterly, our CCO will ensure that a review is undertaken to determine whether all markups/markdowns exist, and if so, have been calculated based on appropriate factors as outlined in Rule 2121 and its Supplementary Materials. Our CCO will also take steps to investigate transactions where it is not clear all factors were considered and that an inappropriate markup/markdown may have been charged. In addition, our CCO will review all mark-up and mark-down disclosures that fall under Rule 2232. Our CCO will maintain documentation of all such reviews, including dates, names of the individuals who conducted the review, scope of review and any findings and subsequent actions. Brighton does not mark up or down securities traded for client accounts. If, however, there occur instances in the future when a mark up or mark down would occur, the CCO will conduct review of the expression of mark-ups and mark-downs in client confirmations through the procedures described above for review of client confirmations generally.

False or Artificial Entries

Procedures and Documentation

Direct supervising principals will oversee all activities and detect and deter any false or artificial entries to our books and records.

Initial account approvals, and routine and scheduled client file reviews undertaken under the oversight of our CCO, will look for cases of false or artificial entry violations. Such reviews must:

- Ensure that all accounts have a legible signature; and
- Require that a principal of this firm call clients to verify any transactions that appear suspicious, highly volatile or large compared to the client's net worth.

OATS (Order Audit Tracking System)

Policy Requirements

The purpose of OATS reporting is to provide FINRA with trade data that can be used to recreate the life-cycle of orders, allowing for improved market surveillance.

All FINRA member firms effecting transactions in Nasdaq and OTC equity securities are obliged to record each order in electronic form and to report to FINRA certain items of information.

The OATS Rules require member firms to report to FINRA order information for Nasdaq-listed equity securities and OTC equity securities. Initial public offerings (IPOs), secondary offerings, Direct Participation Programs (DPPs), "restricted securities", as defined by SEC Rule 144(a)(3) under the Securities Act of 1933, and any securities designated in the PORTAL Market are not reportable to OATS.

Procedures and Documentation

The designated principal (Our Head Trader, or CCO) ensures our compliance with all requirements under OATS.

(✓) We have verified our clearing firm's OATS reporting capabilities and have entered into a written agreement on the responsibilities of this firm and of the clearing firm regarding OATS reporting. The designated principal conducts continuing due diligence of our clearing firm's capabilities and ensures that all required reporting is effected in a timely manner. (Reporting through our clearing firm does not absolve us from our responsibilities as the reporting firm.)

OATS Reporting

OATS is not a real-time reporting system and does not change any other FINRA trade reporting rule (i.e., the 10-second rule), nor do the OATS rules impact the amount of time allowed to write a customer order ticket or perform order processing. For each day's transactions, OATS trade data can be transmitted during or after market hours but not later than 8:00 a.m. on the following business day. Available mechanisms to report to OATS include FTP, CONNECT: Direct, e-mail and the OATS Web interface.

OATS Reporting Verification

Whether we self-report, use the services of a third party (i.e., clearing firm) or report via any combination thereof, we will access FINRA's OATS web site to perform daily reviews of all reported data

and verify such data against our transaction blotters, evidencing such review by initials and dates. Any exception uncovered by these reviews, such as a rejected transaction or late submission, will be brought to the attention of our Head Trader or CCO for appropriate action. We will maintain appropriate documentation of any such action.

Our Head Trader, or an appropriate designee will conduct daily reviews of all reported data, available on the OATS website, as detailed in the following reports. An explanation of each report can be found in the OATS Subscriber Manual available at www.finra.org.

- Firm Order Report FORE Status Notification
- Reporting Statistics
- Order/Trade Match statistics
- Route/NMC Match Statistics
- Interfirm Route Match Statistics
- All reportable order entry ROE-related reports
- All unmatched execution/routing reports

Rejected Transactions

Our Head Trader, or our CCO, will periodically (no less than quarterly) review rejected transactions ("rejections" on the OATS Website), documenting that all applicable repairs have been made to the rejections.

FINRA's OATS Report Card will be reviewed monthly, as discussed in the following section.

In instances where we direct transactions elsewhere than our clearing firm (i.e., an ECN), we will go to FINRA’s OATS web site, pull up the reported data and verify it against our confirms or transaction blotter, evidencing such review by initials and dates.

OATS Report Cards

An OATS Compliance Monthly Report Card is available through FINRA's Report Center.

The OATS Compliance report card is a monthly status report on the number and percentage of (a) late OATS submissions, (b) unmatched execution reports, (c) unmatched NASDAQ Execution System route reports, and (d) unrepaired repairable rejected order events.

Our designated principal will obtain our OATS compliance report card each month.

Clock Synchronization

OATS rules require that all computer and mechanical clocks (i.e., time-stamping devices) be synchronized.

Brighton Securities uses a third party (i.e., another broker-dealer or a financial service bureau) to report on our behalf. We have our own synchronized source of time when orders are not immediately transmitted to the third party or when temporary technical breakdowns occur.

OATS Recordkeeping Compliance

The designated principal will oversee our compliance with OATS and ensure the maintenance of all associated records. Record maintenance also includes all records generated by our clearing firm or third-party vendor. The designated principal must know how to obtain such records (i.e., downloading) from each appropriate party and maintain them in the files.

In addition, the designated principal must oversee adherence to all recordkeeping requirements as called for in the OATS Rules, as well as Rule 7440, the books and records rule.

OATS Announcements (FINRA Website)

The designated principal must ensure that we receive important messages posted to the OATS user community by FINRA and that the information is disseminated as required. Such notices include information on outages, processing delays, reminders and new publication disclosures.

Data Maintenance Requirements

Procedures and Documentation

Our Head Trader, or our CCO in lieu of our having a designated Head Trader, will ensure that we appropriately maintain all required OATS data.

Our CCO will ensure that we maintain appropriate records of the OATS Order Events recorded under FINRA Rule 7440, in accordance with SEC Rule 17a-4(b) for three years, either on micrographic media or by means of electronic storage media in accordance with the conditions set forth in SEC Rule 17a-4(f). The information to be maintained includes the following:

- An identification of each registered person who receives an order from a customer;
- An identification of each registered person who executes the order; and
- When we originate an order that is transmitted manually to another department within this broker-dealer, an identification of the department that originated the order.

Annually our CCO will undertake a review to determine whether we appropriately maintain all required information for OATS Order Events data.

Definition of OTC Equity Security

Policy Requirement

OTC Equity Security: any equity security that (1) is not listed on a national securities exchange, or (2) is listed on one or more regional stock exchanges and does not qualify for dissemination of transaction reports via the facilities of the Consolidated Tape. The amendment does not alter the exclusion of DPP securities from the OATS requirements.

FINRA amended the definition of "OTC equity security" in Rule 7410 of the Order Audit Trail System (OATS) rules to conform to the new definition used in Rule 6420. The amendments will not result in any change to the scope of securities required to be reported to OATS. In addition, the amendments codify prior FINRA guidance that the OATS rules do not apply to orders for restricted equity securities. See Regulatory Notice 11-03 (January 2011). The amendments also eliminate the separate definition of "OTC Equity Security" in FINRA Rule 4560 (Short-Interest Reporting) and clarify that the rule applies to all equity securities except restricted equity securities.

Although the June 28, 2010 definition does not result in any change to the scope of securities required to be reported, the principal in charge of overseeing OATS trade reporting will ensure that all applicable individuals are aware of the new definition.

Exclusion from the Definition of Reporting Member

Policy Requirements

Notice to Members 05-78 states that amended OATS Rules contain an exclusion from the definition of OATS "reporting member" if all the following criteria are met:

1. The firm engages in a non-discretionary order routing process, pursuant to which it immediately routes, by electronic or other means, all its orders to a single receiving reporting member. Note: If a delay results in the routing of an order due to system problems or other reasons, the broker-dealer with which the order originated must report OATS data, regardless of whether a reporting member exclusion was claimed.
2. The firm does not direct or maintain control over subsequent routing or execution by the receiving reporting member.
3. The receiving reporting member records and reports all information required under FINRA Rules 7440 and 7450 with respect to the order.
4. The firm has a written agreement with the receiving reporting member specifying their respective functions and responsibilities to effect full compliance with the requirements of FINRA Rules 7440 and 7450.

Procedures and Documentation

Our CCO will meet with all appropriate principals to determine whether we meet the criteria for exclusion from the definition of an OATS reporting member and would therefore not be required to report OATS data.

( ) We are not excluded from the definition of reporting member and, therefore, have no supervisory review procedures concerning monitoring to ensure continuous applicability of the exclusion.

( ) We deem our broker-dealer to be excluded from the definition of reporting member and, therefore, have the following supervisory review procedures and documentation requirements in place.

Our CCO will maintain documentation evidencing, in sufficient detail, the manner in which this firm has met all criteria that exclude this firm from the definition of reporting member, indicating the date(s) on which such determination was made.

Our CCO will meet with all applicable principals of the firm quarterly to determine whether any changes in how we do business have occurred that may require us to fall under the definition of reporting member.

If we can no longer fully meet all the criteria excluding us from the definition of reporting member, our CCO will require that all appropriate principals meet and that policies and procedures on our responsibilities as a reporting member be put into place.

Exemptive Relief from Reporting Requirements

Policy Requirements

Notice to Members 05-78 states that, under certain circumstances, OATS Rules (specifically, FINRA Rule 7450 and FINRA Rule 9610) grant exemptive relief from the reporting and recording and order data transmission requirements of the OATS Rules under the procedures set forth in the Rule 9600 Series. FINRA member firms may request an exemption to the OATS reporting requirement for manual orders if they meet all the following criteria.

1. The broker-dealer and current control affiliates and associated persons of the broker-dealer have not been subject to any final disciplinary action within the last five years or to any disciplinary action involving fraud within the last 10 years.
2. The broker-dealer has annual revenues of less than $2 million.
3. The broker-dealer does not conduct any market making activities in Nasdaq Stock Market equity securities of OTC equity securities.
4. The broker-dealer does not execute principal transactions within its customers (within limited exceptions for error corrections).
5. The broker-dealer does not conduct clearing or carrying activities for other firms.

Procedures and Documentation

Our CCO must meet with all appropriate principals of the firm to determine whether we are eligible to request an exemption from the transmission of OATS data to FINRA.

Brighton Securities has verified its clearing firm's OATS reporting capabilities and has entered into a written agreement concerning its responsibilities and those of the clearing firm concerning OATS reporting. The CCO is responsible for continuing due diligence in terms of the clearing firm's capabilities and for ensuring that all required reporting is effected in a timely manner. Reporting through the clearing firm does not absolve the Company from its responsibilities as the reporting firm.

Whether the Company performs its own OATS reporting or has entered into a written agreement with a third party to perform reporting on its behalf, the Company remains ultimately responsible for all supervisory activities, and therefore, must periodically review and assess the effectiveness of its reporting agent's activities. The written agreement with the Company's reporting agent specifies and assigns supervisory activities to be implemented by each party. The designated Principal must reference that agreement in order to fully comprehend his or her supervisory activities.

Orders

Limit Orders

Procedures and Documentation

Our CCO must review our limit order policies and procedures to ensure that we adhere to them companywide. Our designated supervising principals must review all limit orders and ensure that they have been appropriately handled by the individuals under their direct supervision. Our designated supervising principals will ensure that:

- Limit orders are marked on the trade ticket and closely monitored
- Limit orders are either good for the day or good-till-cancelled
- At the end of each business day, all exercised orders are confirmed

Our designated supervising principals will ensure the maintenance of a memorandum of each order and any other instructions given or received for the purchase or sale of securities, whether executed or unexecuted. Such memorandum must show, among other things, the terms and conditions of that order. Supervising principals will maintain documentation concerning any stops granted. Stops and all other terms and conditions or instructions with the acceptance of customer orders are required by Exchange Act Rule 17a-3.

Quarterly , our CAO will ensure that we undertake a review of all limit orders to confirm that appropriate supervision has been given on such transactions, and that we have adhered to all internal procedures.

Open Order Adjustments

Procedures and Documentation

The term "open order" means an order to buy or an open stop order to sell, including but not limited to good-till-canceled, limit or stop-limit orders that remain in effect for a definite or indefinite period until executed, canceled or expired.

Our CCO must ensure the appropriate handling of all open orders based on FINRA Rule 5330.

Designated supervising principals have an ongoing responsibility to undertake sufficient monitoring to ensure compliance.

Designated principals will monitor and review all open order treatments, appropriately evidencing all such reviews for the files, based on the following.

When we hold an open order from a customer or another broker-dealer, prior to executing or permitting the order to be executed, we reduce, increase or adjust the price and/or number of shares of such order by an amount equal to the dividend, payment or distribution on the day that the security is quoted ex-dividend, ex-rights, ex-distribution or ex-interest, except where a cash dividend or distribution is less than one cent ($.01), as follows:

1. In the case of a cash dividend or distribution, the price of the order shall be reduced by subtracting the dollar amount of the dividend or distribution from the price of the order and rounding the result to the next lower minimum quotation variation used in the primary market, provided that if there is more than one minimum quotation variation in the primary market, then the greater of the variations shall be used (e.g., if a market has minimum quotation variations of 1/16 or 1/32 of a dollar for securities trading in fractions, depending on the price of the security, or $.01 for securities trading in decimals, then the adjustment to open orders shall be in increments of 1/16 of a dollar for issues trading in fractions and $.01 for issues trading in decimals).
2. The price of a stock dividend or split shall be reduced by rounding the dollar value of the stock dividend or split to the next higher minimum quotation variation used in the primary market as specified in FINRA Rule 5330 and subtracting that amount from the price of the order; provided further, that the size of the order shall be increased by (a) multiplying the size of the original order by the numerator of the ratio of the dividend or split, (b) dividing the result by the denominator of the ratio of the dividend or split and (c) rounding the result to the next lowest share.

In the case of a dividend payable in either cash or securities at the option of the stockholder, the price of the order shall be reduced by the dollar value of the cash or securities, whichever is greater, according to the formulas in subparagraph (1) or (2), above; provided, that if the stockholder opts for securities, the size of the order shall be increased pursuant to the formula in subparagraph (2), above.

If the value of the distribution cannot be determined, the member shall not execute or permit such order to be executed without reconfirming the order with the customer.

If a security is the subject of a reverse split, all open orders will be canceled.

The provisions of the rule do not apply to:

- Orders governed by the rules of a registered national securities exchange
- Orders marked "do not reduce" where the dividend is payable in cash
- Orders marked "do not increase" where the dividend is payable in stock, provided that the price of such orders shall be adjusted as required by this rule
- Open stop orders to buy
- Open sell orders

- Orders for the purchase or sale of securities where the issuer of the securities has not reported a dividend, payment or distribution pursuant to Exchange Act Rule 10b-17

Under Rule 5330 notification is required to be made by us to those customers who have pending orders, that are not otherwise required to be adjusted under the Rule, of any stock splits in the security.

Order Tickets/Investor Questionnaires/Subscription Agreements/Applications

Procedures and Documentation

Broker-dealers must maintain a memorandum of each brokerage order, and of any other instruction given, or received for the purchase or sale of securities, whether executed or unexecuted, which discloses the following, as appropriate:

1. The terms and conditions of the order or instructions, as well as any modification thereof to the account for which it was entered;
2. The time the order was received, the time the order was entered and the time the order was executed-all three times must appear even if the time of any two actions are the same;
3. The identity of each associated person assigned responsibility for the account;
4. The identity of any other associated person who entered or accepted the order on behalf of the customer;
5. The price at which the order was executed and, to whatever extent feasible, the time of execution or cancellation;
6. If applicable, solicited orders must be designated;
7. If applicable, discretionary orders must be designated;
8. The appropriate account name/designation must be placed on each order ticket, per amendment to FINRA Rule 4515. Any required changes to the account name and/or designation given on an order ticket cannot be made without prior initialed approval and rationale for change made by an appropriately licensed principal; and
9. Any exercise of time and price discretion must be reflected on the order ticket, per FINRA Rule 3260.

Subscription/Application basis orders (i.e., private placements, mutual funds, etc.) are exempt from items (2), (3), (4) and (9) above.

Through our supervision tab on Smart Station, a First Clearing program, the Compliance Department will review all order tickets or other documents utilized when order tickets are not applicable (i.e., private placement transactions, mutual fund purchases, etc.), evidencing such review by signature or initials, and date.

Payment for Order Flow

Policy Requirements

"Payment for Order Flow" is defined as: *"Any monetary or non-monetary compensation, remuneration or consideration in return for routing customer orders to a particular market or dealer, for research, clearance, products or services or reciprocal order swapping arrangements, as well as credits, rebates or discounts against execution fees that exceed the fees charged for executing the order."*

Procedures and Documentation

Our CCO must ensure full compliance with Exchange Act Rules 10b-10 and Regulation NMS Rule 607.

Exchange Act Rule 10b-10 requires an indication on confirms whether a broker-dealer receives payment for order flow and the availability of further information on request. This is true whether the disclosure is ours (in cases where we do receive payment for order flow) or our clearing firm's (relating to their payment for order flow disclosure if there is no such disclosure required to be made by us).

We will undertake an annual review of confirms to ensure that all appropriate payment for order flow disclosures have been made.

Under Regulation NMS Rule 607, we are required to make written customer notification, at the time of opening a new account including:

- Our policies and order routing practices for the receipt of payment for order flow, including whether it is received and a detailed description of the nature of compensation received;
- Information on order-routing decisions, including whether market orders are subject to price improvement opportunities; and
- Notice that an account is NOT permitted to be opened without an originally-executed New Account Form.

All customers must receive an annual updating of the above information. Documentation of such annual updating will be verified, either by reviewing the files on an annual to ensure that such updating has occurred, or by verifying that our clearing firm has sent out such annual notification.

Time and Price Discretion (Retail Clients)

Policy Requirements

These requirements are solely for retail orders. Institutional accounts are exempt.

When a client orally grants time and price discretion, such discretion is limited to the day it is granted, unless we have received from the customer a signed and dated written authorization allowing us to carry the order forward to completion.

Procedures and Documentation

Our CCO must ensure that we have appropriate policies and procedures in place to comply with time and price discretion granted to registered personnel by their customers.

In addition, our designated supervising principals are responsible for ongoing oversight of all individuals under their immediate supervision to ensure that all time and price discretion transactions are in compliance with all rules, regulations and requirements.

All open orders subject to time and price discretion (which must be indicated on the order tickets) will be reviewed to ensure that appropriate written authorization is retained in the client file, such review evidenced by initials and dates.

When an open order exists for which appropriate written authorization cannot be located, we will do the following:

- Require registered personnel to immediately obtain oral approval for the following day, to be able to continue to fill the order; and
- Require registered personnel to obtain, by the following day, the requisite written authorization.

When registered individuals continue to fail to have appropriate documentation when carrying an order over to the following day, additional steps may be warranted, ranging from additional training, withholding of commissions, internal fines, etc.

Trading Systems / Order Entry Integrity

Policy Requirements

Notice to Members 04-66 advises FINRA member firms of the regulatory concern when firms "inadvertently have entered, or permitted customers or non-members to enter, the incorrect quantity of shares or prices into the handling, routing, and execution services of a vendor, automated trading system, electronic communications network, or other market center (collectively 'trading systems')."

Procedures and Documentation

Our Head Trader and CCO will ensure that we have a supervisory system and written supervisory procedures reasonably designed to ensure that orders placed into trading systems are not entered in error or in a manner inconsistent with FINRA rules, including FINRA Rule 5210 "Publication of Transactions and Quotations" and "Manipulative and Deceptive Quotations".

Rule 3110 (Supervision) requires us to have in place a supervisory system and written supervisory procedures reasonably designed to ensure that such orders placed into trading systems are not entered in error or in a manner inconsistent with FINRA rules, including Rule 5210. Our CCO will work with applicable associated personnel to ensure that we have such a supervisory system and written procedures in place.

Notice to Members 04-66 reminds firms that supervisory systems should promote compliance with the subscriber agreements of such trading systems. Our CCO will review all such subscriber agreements (evidenced by initials and dates) and maintain them in the files.

Our CCO must ensure that when we enter (through our clearing firm, another broker-dealer or an ECN), or permit customers or non-members to enter, orders into trading systems procedures and oversight are in effect so that orders are free of errors and representative of bona fide transaction and quotation activity.

The ultimate responsibility for data entry errors, or errors caused by defective or malfunctioning software operated either by us or a vendor, is ours.

While trading systems enhance our ability to route and execute orders and enable us to execute multiple orders as quickly and efficiently as possible, speed and efficiency must be balanced against the safeguards needed to protect against errors or mistakes that can result in increased market volatility and confusion, as well as significant financial risk and exposure to firms and the investing public.

Our CCO will review FINRA Regulatory Notice 09-72 and NASD Notice to Members 04-66 (referring to Notices to Members 88-84, 89-34, 98-96 and 99-45, as needed) regarding our responsibilities and supervisory requirements in this matter.

- Our Head Trader must ensure that we have in place systems that include controls that limit the use of such systems to authorized persons, undertake reviews for order accuracy, prevent orders that exceed preset credit- and order-size parameters from being transmitted to a trading system, and prevent the unwanted generation, cancellation, repricing, resizing, duplication, or re-transmission of orders.
- Our Head Trader will also ensure that the operation, testing, or maintenance of a trading system does not result in the inadvertent disabling of the applicable trading system, mistaken executions, errors, or other trading problems.
- We must ensure that we do not test our systems' connectivity to the applicable trading system by sending orders that are not executable, such as by sending orders during normal market hours that are priced far outside a security's current price. Our Trading Principal must ensure that we test pursuant to established protocols and that our test messages are clearly denoted as such.
- Our Head Trader must ensure that our supervisory system and written supervisory procedures are in place and have been reasonably designed to ensure that such orders are not entered in error or in a manner inconsistent with FINRA rules (including, but not limited to, Rule 5210) or with the subscriber agreements of such trading systems to the extent necessary to ensure compliance with applicable FINRA rules.
- Our Head Trader has been given instructions noting that procedures available to adjudicate clearly erroneous transactions are to be used only in cases of clear or obvious errors; these procedures are not appropriate to be used as a proxy for proper system use or trading procedures. Other errors, whether as a result of a system problem or human error, are also prohibited from being dealt with through the rules applicable to clearly erroneous transactions.

Failure on the part of our Head Trader to enforce all written supervisory policies and procedures with respect to the review and detection of potential order-entry errors may result in FINRA initiating disciplinary action against this firm and our supervisory personnel for failure to adopt, implement, and enforce appropriate supervisory procedures.

Regulation NMS

Policy Requirements

Regulation NMS establishes rules designed to modernize and strengthen the regulatory structure of the U.S. equities markets. The Rules establish requirements for “trading centers” to reduce the likelihood of “trade-throughs” and realign the relationships among markets. Regulation NMS addresses four main topics: (1) order protection (or prohibitions on "trade-through"); (2) intermarket access; (3) sub-penny pricing; and (4) market data.

On November 2, 2018, the SEC announced that they will adopt amendments to Rule 606 of Regulation NMS, which requires broker-dealers to disclose to investors new and enhanced information about the way they handle investors’ orders.

The Commission has amended the Rule to require a broker-dealer, upon a request of a customer who places a “not held” order, to provide the customer with a standardized set of individualized disclosures concerning the firm’s handling of the customer’s orders. The new disclosures will, among other things, provide the customer with information about the average rebates the broker received from, and fees the broker paid to, trading venues.

These amendments became effective on November 13, 2018.

Order Protection Rules (SEC Rule 611 and FINRA Rule 6380A) require trading centers to establish, maintain and enforce written policies and procedures that are reasonably designed to prevent trade-throughs of protected quotations and ensure compliance with the rule’s exceptions. Trading centers include national securities exchanges, national securities associations that operate SRO trading facilities, alternative trading systems, exchange market-makers, OTC market-makers and any other broker-dealers that execute orders internally by trading as principal or crossing orders as agent. Trade-throughs are defined as the execution of trades at prices inferior to protected quotations.

The quotations protected by SEC Rule 611 include the best immediately accessible automated bids and offers in NMS stocks of each national securities exchange, Nasdaq, FINRA’s ADF, or other national securities association that is displayed by an automated trading center (no manual quotations). Automated quotations in a trading center that repeatedly do not respond to bids or offers within one second will not be protected under the Order Protection Rule. Only automated trading centers are eligible to have their quotations protected. To qualify as an automated trading center, a trading center must have implemented the systems, procedures, and rules necessary to render it capable of displaying quotations meeting the action, response, and updating requirements set forth in the automated quotation definition. A trading center must identify all quotations other than automated quotations as manual quotations, and must immediately identify its quotations as manual quotations whenever it has reason to believe that it is not capable of displaying automated quotations. The trading center also must adopt reasonable standards limiting when its quotations change status from automated to manual, and vice-versa, to specifically defined circumstances that promote fair and efficient access to automated quotations and are consistent with the maintenance of fair and orderly markets.

There are several exceptions to Rule 611 that apply when it would be harmful to the investor to wait for a better priced quotation from another market including, among others:

- *Intermarket sweep orders* – A trading center may execute immediately any order identified as an intermarket sweep order without regard for better-priced protected quotations displayed at one or more other trading centers. The exception also authorizes a trading center to route intermarket sweep orders and thereby clear the way for immediate internal executions at a price inferior to a protected quotation at another trading center. The trading center, broker, or dealer responsible for routing an intermarket sweep order (whether it routes through its own systems or sponsors access through a third-party vendor's systems) must take reasonable steps to establish that orders are properly routed to execute against all applicable protected quotations.
- *Single Price Openings, re-openings and closing transactions* – A single-priced opening, reopening, or closing transaction that constituted a trade-through is exempted from the Order Protection Rule. This exception applies only to single-priced reopenings and therefore requires a trading center to conduct a formalized and transparent process (pursuant to its rules or written procedures) for executing orders during reopening after a trading halt that involves the queuing and ultimate execution of multiple orders at a single equilibrium price. In addition, the trading center must have formally declared a trading halt pursuant to its rules or written procedures.
- *Rapidly changing (flickering) quotations* – This exception is available if the trading center displaying the protected quotation that was traded-through had displayed, within one second prior to execution of the trade-through, a best bid or offer, as applicable, for the NMS stock with a price that was equal or inferior to the price of the trade-through transaction. This exception provides a window to address false indications of trade-throughs that are attributable to rapidly moving quotations.
- *Self-help with respect to systems failures* - A trading center may use this exception if another trading center experiences a failure, material delay, or malfunction of its systems or equipment. This sort of material delay occurs when the trading center repeatedly fails to provide an immediate response, within one second, to incoming orders attempting to access its quotes. A trading center making use of the exception must notify the non-responding trading center immediately after, or at the same time as, electing self-help pursuant to reasonable and objective standards contained in its policies and procedures. The trading center invoking the self-help remedy need not provide the non-responding trading center prior notice, but must assess whether the problem lies with its own systems and appropriately address any such problems.
- *Benchmark transactions (i.e., VWAP transactions)* – Trading centers may execute volume-weighted average price ("VWAP") orders, as well as other types of orders that are not priced with reference to the quoted price of the NMS stock at the time of execution and for which the material terms were not reasonably available at the time the commitment to execute the order was made.
- *Stopped order*s – This exception applies to the execution by a trading center of a stopped order for the account of a customer when the price of the execution of the order was lower, for a buy order, than the national best bid at the time of execution, or was higher for a sell order than the

national best offer at the time of execution. The customer must have agreed to the stop price on an order-by-order basis.

- *Transactions other than regular way contracts* - Transactions that are executed in a manner other than standardized terms and conditions, such as transactions that have extended settlement terms, also are excepted from the Order Protection Rule.
- *Crossed transactions* – Transactions executed at a time when protected quotations were crossed are excepted from the Order Protection Rule. This exception does not apply when a protected quotation crosses a non-protected (e.g., manual) quotation.

Access Rule (SEC Rule 610)

The access rule promotes fair and nondiscriminatory access to quotations through a private linkage; establishes a limit on access fees; and requires each national securities exchange and national securities association to enforce rules that prohibit their members from engaging in a pattern or practice of displaying quotations that lock or cross-automated quotations.

In addition, all trading centers that choose to display quotations in an SRO display-only quotation facility (which currently means only the ADF) must "provide a level and cost of access to such quotations that is substantially equivalent to the level and cost of access to quotations displayed by SRO trading facilities in that stock." These additional connectivity requirements arise only if a trading center displays its quotations in the consolidated data stream and does not provide access through an SRO trading facility. FINRA affirmatively must determine prior to implementation of the access rule that existing ADF participants follow the Rule's requirements, and will be responsible for halting publication of the participant's quotations until the participant comes into compliance. In addition, quotations displayed through an SRO display-only facility are subject to the same fair and non-discriminatory access requirements as are quotations of SRO trading facilities.

The access rule limits the fees any trading center can charge, or allow to be charged, for accessing its protected quotations, both displayed and reserve size, to no more than $0.003 per share (securities quoted at $1.00 or more) or 3% on securities quoted at less than $1.00. The Rule also requires FINRA and the exchanges to establish, maintain and enforce written rules that prohibit their members from engaging in a pattern or practice of displaying any quotation that locks or crosses a protected quotation, or a manual quotation that locks or crosses a quotation disseminated pursuant to an effective National Market System Plan (NMS Plan).

Sub-Penny Rule (Rule 612)

Rule 612 of Regulation NMS prohibits market participants from displaying, ranking, or accepting quotations, orders or indications of interest in any NMS stock priced in an increment smaller than $0.01 if the quotation, order or indication of interest is priced greater than or equal to $1.00 per share.

Market Data Rules (Rules 601 and 603)

The market data rules update the requirements for consolidating, distributing, and displaying market information, as well as amendments to the joint industry plans for disseminating market information that modify the formulas for allocating plan revenues and broaden participation in plan governance.

Procedures and Documentation

Our Senior Trader and CCO must oversee all required activities and ensure that we maintain appropriate documentation.

To comply with the requirements of Regulation NMS, we will do the following as deemed necessary by our role in the financial industry (fully-disclosed introducing firm, trading center, market maker, etc.).

- Use an order routing system that can dynamically and intelligently route orders to venues that will fulfill best execution obligations
- Ensure that a third-party vendor system establishes connection with a wider set of execution venues and that the messaging infrastructure can handle both increase in volume and additional data reporting requirements
- Employ a technology structure that supports Regulation NMS performance requirements, that is, retain the appropriate market data, order status and execution report elements to reconstruct its decision making process for order routing to satisfy future regulatory inquiries
- Employ transaction cost analyzers to predict the venue that offers the least cost execution
- Document and demonstrate how best execution is achieved and justify which venues are included/excluded for client business
- Demonstrate how the firm facilitates participation in and connectivity to all protected liquidity sources directly or indirectly
- Demonstrate how the firm determines the number and size of the required ISOs
- Ability of the system to capture market data quotes at the time of ISO and internal execution
- Ability of the system to append and interpret trade identifiers for Regulation NMS exceptions
- Ability of the system to store and retrieve snapped market data/orders for audit purposes (i.e., access to comparative market data tick database based on SIP data)
- System capability for latency monitoring and clock synchronization
- Ensure connectivity to execution venues is robust and redundant
- Ensure order entry systems will reject sub-penny orders
- Train operational staff on meaning of new trade modifiers
- Ensure system integrates market data into block trading systems, crossing engines, and best bid routing engines
- Conduct post trade reviews to ensure the system is capturing and storing accurate market data quotes and execution reports (order routing decisions are made based on accurate data)

TRADE REPORTING: OTC EQUITY SECURITIES

Policy Requirements

Reportable OTC Equity Securities Transactions: FINRA member firms are required to report transactions (other than transactions executed on or through an exchange) in OTC equity securities,

including secondary market transactions in non-exchange-listed Direct Participation Program securities, and Restricted Equity Securities to the OTC Reporting Facility (ORF) in compliance with the Rule 6600 and 7300 Series, as well as all other applicable rules and regulations.

Pursuant to FINRA Rule 2114, in recommending that a customer purchase or sell short any OTC equity security, the member firm must have reviewed the current financial statements of the issuer, current material business information about the issuer, and made a determination that such information, and any other information available, provides a reasonable basis under the circumstances for making the recommendation.

Procedures and Documentation

Our Head Trader is responsible for ensuring that we are in full compliance with all our responsibilities with reporting OTC equity securities transactions.

Our CCO is responsible for undertaking an annual review of our OTC reporting policies and procedures and for testing them to ensure compliance.

The designated principal will ensure that, as soon as practicable but no later than 10 seconds after execution, we will transmit to the OTC Reporting Facility, or if the OTC Reporting Facility is unavailable due to system or transmission failure, by telephone to the Operations Department, last sale reports of transactions in OTC Equity Securities executed during normal market hours.

Which Party Reports the Transaction?

1. In transactions between two members, the executing party shall report the transaction.
2. In transactions between a member and a non-member or customer, the member shall report the transaction.

The designated principal shall ensure that each last sale report contains the following information:

- Symbol of the OTC Equity Security or Restricted Equity Security;
- Number of shares;
- Price of the transaction;
- A symbol indicating whether the transaction is a buy, sell or cross, and if applicable, sell short; and
- The time of execution expressed in hours, minutes, and seconds based on Eastern Time, unless another provision of FINRA rules requires that a different time must be included on the report.

All OTC reporting is reviewed on an on-going basis, ensuring compliance (such reviews evidenced by initials and dates).

The designated principal will ensure that all OTC transaction processing meets all requirements of Rules 7240A and 7340, understanding that stop orders has been replaced with FINRA Rule 5350.

Our CCO will ensure that an annual review is undertaken of all OTC reporting and related requirements.

Net Transactions

Policy Requirements

FINRA Rule 2124 defines a "net" transaction as a principal transaction in which a market maker, after having received an order to buy (sell) an equity security, purchases (sells) the equity security at one price (from (to) another broker-dealer or another customer) and then sells to (buys from) the customer at a different price.

Prior to executing a transaction for or with a customer on a "net" basis, firms must provide disclosure to and obtain consent from the customer.

For non-institutional customers, member firms must obtain the customer's written consent on an order-by-order basis prior to executing a transaction for or with the customer on a "net" basis and such consent must evidence the customer's understanding of the terms and conditions of the order.

For institutional customers, member firms must obtain the customer's consent prior to executing a transaction for or with the customer on a "net" basis in accordance with one of the following methods:

- a negative consent letter that clearly discloses to the institutional customer in writing the terms and conditions for handling the customer order(s) and provides the institutional customer with a meaningful opportunity to object to the execution of transactions on a net basis. If the customer does not object, then the member may reasonably conclude that the institutional customer has consented to the member trading on a "net" basis with the customer and the member may rely on such letter for all or a portion of the customer's orders (as instructed by the customer);
- oral disclosure to and consent from the customer on an order-by-order basis. Such oral disclosure and consent must clearly explain the terms and conditions for handling the customer order and provide the institutional customer with a meaningful opportunity to object to the execution of the transaction on a net basis; or
- written consent on an order-by-order basis prior to executing a transaction for or with the customer on a "net" basis and such consent must evidence the customer's understanding of the terms and conditions of the order.

Procedures and Documentation

Our CCO and FINOP will ensure that all net transactions, in addition to complying with the FINRA trade reporting rules, also adheres with all other applicable FINRA and SEC rules, including:

- *SEC Rule 10b-10(a)*. For non-market makers, firms must disclose to customers the difference between the price to the customer and the contemporaneous purchase (sale) price, where the firm purchases (sells) the security from another person to offset a contemporaneous sale to (purchase from) such customer.
- *SEC Rule 611 (Order Protection Rule)*. Firms trading on a net basis must comply with the Order Protection Rule, which requires trading centers to establish, maintain and enforce written

policies and procedures reasonably designed to prevent the execution of trades at prices inferior to protected quotations displayed by automated trading centers, subject to applicable exceptions and exemptions.

- *Rule 2121 (Fair Prices and Commissions)*. If a firm buys (sells) for its own account from (to) its customer, the firm shall do so at a price that is fair, taking into consideration all relevant circumstances.
- *Rule 5310 (Best Execution and Interpositioning)*. Firms must use "reasonable diligence" to ascertain the best market for a security and to buy and sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.
- *Rule 5320 (Prohibition Against Trading Ahead of Customer Orders)*. A firm that accepts and holds an order in an equity security from its own customer or a customer of another broker-dealer without immediately executing the order is prohibited from trading that security on the same side of the market for its own account at a price that would satisfy the customer order, unless it immediately thereafter executes the customer order up to the size and at the same or better price at which it traded for its own account.

At least [monthly/quarterly/annually], our CCO will review our net transactions to ensure that the correct consent has been documented for each transaction.

Foreign Securities

Policy Requirements

From FINRA Notice to Members 07-25:

"The definition of OTC EQUITY SECURITY is broad and includes foreign equity securities, even those that trade exclusively outside the United States" and "A foreign equity security is any OTC Equity Security that is issued by a corporation or other organization incorporated or organized under the laws of any foreign country."

Procedures and Documentation

Our Trade Reporting Principal must ensure that all applicable foreign equity securities are included in our trade reporting as required by FINRA Rule 6622 (formerly NASD Rule 6620), and for ensuring that ALL ADR transactions (including ADR swap transactions, or "Cross-book" transactions) are reported.

Our CCO will ensure that we undertake monthly review of all foreign securities transactions to ensure that only those that meet Rule 6622 trade reporting exclusion parameters have been excluded from our trade reporting.

Rule 6622 reporting requirements do not apply if:

1. the transaction is executed on and reported to a foreign securities exchange, or
2. the transaction is executed over the counter in a foreign country and is reported to the regulator of securities markets for that country.

We will undertake quarterly reviews of all ADR transactions to ensure that they have all been appropriately reported in a timely manner, taking into account that the conversion of ordinary shares into ADRs (or vice versa) at a bank depository is not considered an OTC transaction for purposes of FINRA trade reporting rules and is, therefore, not a reportable event.

Third Party Reporting Activities

Responsibility

Our FINOP have joint responsibility for ensuring that we are in compliance with overseeing all trade reporting activities undertaken on our behalf by a third-party.

Procedure

At least semi-annually, our FINOP and CCO will ensure that we undertake a review of the reporting being done on our behalf, verifying that such reporting is performed on a timely and accurate basis.

Verification will be accomplished by reviewing a sampling of the third-party's trade reporting records. Any discrepancies will be brought to the attention of the third-party for their review and, if appropriate, the submission of corrected trade reports.

Trading Activity Fee Assessment – For All ACT-Reported Transactions: Our FINOP is responsible for jointly ensuring that the appropriate payment of Trading Activity Fees is made by the entity undertaking our trade reporting. For clarification, we may refer to Notices to Members 02-41 and 02-63 as well as FINRA By-Laws covering such assessment payment requirements.

Our FINOP will retain copies of all payment notifications (either proof of actual payment or indications of deductions from what the clearing firms sends us), and verify on a monthly basis that such fees have been paid.

Clearing and Settlement

Clearing Agreements: Fully-Disclosed Introducing BD

Procedures and Documentation

Our CCO must ensure that we comply with all applicable rules and regulations regarding any clearing agreements into which we enter.

Our CCO must ensure that the following, or similar, language appears in all clearing agreements into which the firm enters.

> *"For purposes of the Securities and Exchange Commission's financial responsibility rules and the Securities Investor's Protection Act, the broker-dealer's customers will be considered customers of (NAME OF CLEARING FIRM) and not customers of (NAME OF INTRODUCING FIRM). Nothing herein shall cause (NAME OF INTRODUCING FIRM)'s customers to be construed or interpreted as customers of (NAME OF CLEARING FIRM) for any other purpose, or to negate the intent of any other section of this agreement, including, but not limited to, the delineation of responsibilities as set forth elsewhere in this agreement."*

When reviewing customer account statements, we will confirm that they contain language that adheres to the SEC interpretation. The following language, or similar language, may be used.

> *"(NAME OF CLEARING FIRM) carries your account and acts as your custodian for funds and securities deposited with us directly by you, through (NAME OF INTRODUCING FIRM) or because of transactions we process for your account. Inquiries concerning the position and balances in your account may be directed to our Client Services Department at (TELEPHONE NUMBER). All other inquiries regarding your account or the activity therein should be directed to (NAME OF INTRODUCING FIRM)."*

We will also ensure that our clearing firm complies with FINRA Rule 2231 that requires that customer account statements include an advisory notice requesting that customers *"promptly report any inaccuracies or discrepancies in their account to both this broker-dealer and to our clearing firm and, if such notification is made orally, to confirm such communication in writing."*

Where account statements are delivered electronically, the advisory may also be delivered electronically, provided it appears on the same screen as the account statement. Neither we nor our clearing firm would be deemed to follow this requirement electronically if the customer were required to utilize a "click-through process" to bring the advisory to the screen.

Additionally, clearing agreements must specify the party responsible for each of the following.

- Opening, approving and monitoring customer accounts
- Extending credit
- Maintaining books and records

- Receiving and delivering funds and securities
- Safeguarding funds and securities
- Preparing confirmations and statements
- Accepting orders and executing transactions

Upon the opening of a customer account to be introduced on a fully-disclosed basis, we must notify the customer, in writing, that a clearing agreement is in effect. Our CCO will identify from the clearing agreement (required to identify the party responsible for providing such written notification) the party responsible for making such disclosure.

If the clearing firm has the responsibility, we will undertake appropriate due diligence to ensure such disclosures are, in fact, made.

If we, the introducing firm, are responsible for the disclosure, our CCO will maintain the appropriate files documenting our compliance.

Our CCO must also submit clearing agreements to FINRA for review and approval if any changes/amendments are made or if we enter into any new agreements.

Assets of Introducing Broker-Dealer Held by Clearing Firm

Our FINOP must ensure that all clearing agreements into which we enter contain appropriate Proprietary Account of an Introducing Broker-Dealer (PAIB) language.

Introducing firms may include PAIB assets as allowable assets in net capital computations, provided their clearing firm establishes a separate reserve account for such assets in accordance with SEC Exchange Act Rule 15c3-3 and provided that the introducing firm and the clearing broker-dealer enter into a written agreement whereby the clearing firm will perform the PAIB calculation in accordance with the provisions, procedures and interpretations set forth in the SEC's June 1, 1999, no-action letter.

If applicable, our FINOP will treat assets in our proprietary account as either allowable or non-allowable assets, depending on the existence of an appropriately worded PAIB letter.

Our FINOP will also adhere to the FINRA requirement that, within two days of entering into any new PAIB agreement, we must notify our FINRA District Office, in writing, advising it that we have entered into such an agreement with our clearing firm.

Even if we do not maintain a proprietary trading account, we require a PAIB agreement as an introducing, fully-disclosed broker-dealer to treat our deposit at the clearing firm as an allowable asset for net capital computation purposes. Our FINOP ensures that proper calculations of net capital are undertaken, treating our clearing firm deposit monies as either allowable or non-allowable assets, depending upon the existence of an appropriately worded PAIB agreement.

If our clearing agreement permits us to issue checks to our customers drawn on the clearing firm's account, we must be able to represent to the clearing firm that we have established and will maintain and enforce written procedures with respect to the issuance of negotiable instruments.

Our FINOP must maintain and enforce such procedures and report any problems or breaches of procedure to our CCO, including clear safeguards and procedures, which the clearing firm has, that will be in effect when we issue such checks.

Minimally, the following must be adhered to:

- The bank account from which checks are issued must be in the name of the clearing firm.
- The written contract between us and the clearing firm must specify that we are acting as agent for the clearing firm.
- Our clearing firm may not debit customer brokerage accounts for checks issued by us and drawn on the account until the checks clear.

An SEC Division of Market Regulation Interpretation to NASD in 1993, states that *"as an alternative to not debiting a customer's account, NASD (FINRA) member firms are permitted to reduce debits in their Reserve Formula by an amount equal to outstanding customer checks."*

Our FINOP acts as a liaison with our clearing firm to ensure that all necessary safeguards are always taken and that the clearing firm continues to be satisfied by our written supervisory policies and procedures covering this activity.

At least annually, we will request that our clearing firm attests to its satisfaction with our procedures. If such statement of satisfaction is not forthcoming, the issuance of checks drawn on our clearing firm's account must immediately cease until we and the clearing firm have reached a satisfactory agreement to continue such activity.

Letters of Authorization

Procedures and Documentation

Funds may not be paid or sent to a third-party out of a customer's account unless a Letter of Authorization (LOA) is obtained prior to the transfer.

The LOA must contain clear instructions, be fully completed, and must be signed by the customer. For joint accounts, all joint owners must sign the LOA. For corporations, trust accounts and other such accounts, the individual indicated in our records as the person authorized to transact business for that account must sign the LOA.

Prior to the transfer of any funds out of a customer's account, the LOA will be reviewed by the designated principal.

Completed and approved LOAs must accompany the request to disburse funds or to send securities to a third-party.

On an ongoing basis, our CCO will ensure that we undertake a review of accounts that have had funds or securities disbursed to a third-party.

Our CCO must also ensure that each time funds are disbursed or securities are sent from a customer account to a third-party, confirmation is sent to the customer by a carrier with delivery confirmation.

Securities Registration: Blue Sky

Procedures and Documentation

Our CCO determines that a non-Nasdaq or unlisted security (for both domestic and foreign issuers) has been appropriately state registered before our registered personnel are permitted to engage in transactions in the security.

CCO determines the appropriate way to confirm the blue sky registration status of securities. The confirmation process may entail contacting the issuer or the issuer's counsel, reviewing offering materials, contacting the states, or reviewing a public database.

Our CCO will maintain documentation of the basis on which each blue sky determination was made and how the information was disseminated allowing the transactions to begin.

Annually, our CCO will review our procedures for confirmation of state registration prior to sales activity. Our procedures should have sufficient fail-safe systems that ensure no unconfirmed security is offered by our registered personnel.

Signature Guarantees

Procedures and Documentation

Signature guarantees are required in all instances when stocks, bonds or other registered securities are transferred from a seller to a buyer. Signature guarantees must be obtained on the appropriate documents, including but not necessarily limited to, stock certificates and stock/bond power forms.

Authorized guarantors may use a signature guarantee Medallion Stamp to facilitate security transfers. Use of the stamp is limited to letters and requests to mutual fund companies, limited partnerships, insurance companies and transfer agents for the benefit of our clients. Blank or altered documents may never be guaranteed.

A supervising principal must approve all signature guarantees. A signature guarantee may not be approved without a comparison made to the new account document files for validation purposes.

Our CAO will ensure that all internal audits and reviews, including branch offices if applicable, assess the level of security under which signature guarantee stamps are maintained, and how access is limited only to authorized guarantors.

Our CCO will maintain a list of those individuals authorized to guarantee signatures and ensure that all designated supervising principals have access to that list.

SRO Membership/FINRA "Broker Check" Disclosures On Websites

Policy Requirements

FINRA Rule 2210 requires that a hyperlink to FINRA's BrokerCheck site must be available on "(1) the initial Web page that the firm intends to be viewed by retail investors, and (2) any other Web page that includes a professional profile of one or more registered persons who conduct business with retail investors."

These requirements do not apply to (i) a member that does not provide products or services to retail investors and (ii) or a website which includes only a directory or list of registered persons limited to names and contact information.

Procedures and Documentation

Our CCO must ensure that any websites maintained by this broker-dealer and any associated individuals comply with the requirement to contain appropriate hyperlinks.

Our CCO will monitor FINRA's web site, as well as informational releases, to put the following appropriate steps into place when required.

Annually, our CCO will ensure that we undertake a review of all websites maintained by us, documenting each site that refers to our FINRA membership and/or is available to actual or potential clients.

Each site that refers to our FINRA membership or is accessible to actual or potential clients will be further reviewed to ensure that it contains a hyperlink to FINRA's home page and to FINRA's "BrokerCheck."

This review will cover all websites maintained by associated personnel, ensuring that they also contain the appropriate SRO home page hyperlinks in every instance where reference to such membership is included.

Products and Services

Certificates of Deposit (CDs)

Policy Requirements

CDs are typically issued by a bank directly to a customer, carry a fixed interest rate for a fixed duration of time, are insured by the Federal Deposit Insurance Corporation (FDIC) against depository institutional insolvency and are generally considered to be a simple and conservative product, carrying few risks.

Increasingly, however, long term CDs, which are more complex and carry more risk, are offered to investors. They generally have a maturity of several years (in some instances, as long as 20 years) and sometimes carry a higher yield than an FDIC-insured CD. They may also, however, have any number of additional features that affect the rate of return and degree of risk, such as variable interest rates, callability by the issuing bank, availability for trade in a secondary market. They may also be subject to transactions costs not typically associated with a traditional CD.

Depending upon various factors, these nontraditional CD products can, from a legal standpoint, be considered securities. However, regardless of whether the product is a security or not, we take seriously our responsibility to ensure that our registered personnel understand the products and adequately and clearly disclose to customers all product characteristics and risk factors (i.e., possible loss of principal, call features, insurance issues, etc.)

Procedures and Documentation

Direct supervising principals ensure that any traditional and nontraditional CD transactions meet the regulatory requirements and adhere to the policies and procedures in place for supervising and reviewing such transactions.

Such responsibility includes ensuring that all individuals engaged in such transactions are aware of their obligations under FINRA's Conduct Rules to disclose to customers the varying risks of investing the proceeds of deposits such as maturing Certificates of Deposit, in a security (e.g., mutual fund, CMO or variable insurance product, etc.).

- Active accounts where customers entered into mutual fund, Collateralized Mortgage Obligation (CMO) or variable annuity transactions with maturing CDs, will be reviewed quarterly for proof of adequate disclosure.

  These reviews will determine whether the disclosures have been made in writing, and the customer acknowledges, in writing, that he or she fully understood all the possible ramifications of changing his or her investment from a FDIC-insured product to a noninsured investment product.

- Failure by any employee to offer adequate disclosure to our clients may result in the need for additional training and/or internal disciplinary action. Serious infractions may result in

termination. We will maintain documentation of any such action taken in the individual's personnel/Form U4 file or other appropriate file.

- All CD transactions will be reviewed at least quarterly to ensure they have been priced at fair market value on customer account statements. Where it is not possible to attach a reasonable market valuation, we will look for a segregation of the CDs on the account statement and an inclusion of a disclosure on the statement that covers EACH of the following four points:
    1. The secondary market for CDs is generally illiquid;
    2. An accurate market value could not be determined;
    3. The actual value of the CDs may be different from their purchase price; and
    4. A significant loss of principal could result if CDs are sold prior to maturity.
- At least quarterly, we will compile a list of the names of customers who have purchased CDs from us in the past quarter and undertake a sampling review of customer account statements, looking for appropriate disclosure.

Debt Securities

Bonds and Bond Funds

Procedures and Documentation

Our CCO must ensure that all registered personnel are fully aware of suitability issues related to debt security transactions. Our designated supervising principals are responsible for ongoing monitoring of all securities-related activities to ensure compliance with all regulatory matters, including Regulation Best Interest.

Notice to Members 04-30 addresses the obligations we have in connection with bonds and bond funds. We must:

- Understand the terms, conditions, risks and rewards of bonds and bond funds we sell (i.e., performing a reasonable-basis suitability analysis);
- Make certain that a bond or bond fund is appropriate for a customer before recommending it (i.e., performing a customer-specific suitability analysis);
- Provide a balanced disclosure of the risks, costs and rewards associated with a bond or bond fund, especially when selling to retail investors;
- Adequately train and supervise employees who sell bonds and bond funds; and
- Implement adequate supervisory controls to reasonably ensure compliance with FINRA and SEC sales practice rules for bonds and bond funds.

Our CCO will ensure that all designated supervising principals receive copies of Information Notices 11-02 and 11-25 detailing Know Your Customer and Suitability requirements and Notice to Members 04-30, dealing with sales practice concerns surrounding debt securities. These Notices fully inform supervising principals of the issues about which they should be diligent when overseeing debt security transactions.

Prior to approving a debt security transaction, designated supervising principals must be satisfied that all appropriate disclosures have been made and that all information required to ensure a determination of

suitability has been obtained. Approval of the new-account form or order ticket will indicate the principal's satisfaction that the transaction was suitable.

Government Securities

Procedures and Documentation

We adhere to all FINRA sales-practice requirements and conduct rules as they apply to all securities transactions undertaken by us, including government securities.

We will ensure that all registered employees of this firm are familiar with FINRA Rule 2010 regarding Standards of Commercial Honor and Principles of Trade.

In accordance with FINRA Board of Governors' interpretation regarding Suitability Obligations to Institutional Customers, we are aware of, and in compliance with, the portion of the Interpretation that indicates that suitability requirements are in place for all debt and equity securities, except municipals (which are subject to separate rules promulgated by the MSRB). We will also ensure compliance with Regulation Best Interest.

Our CCO must ensure that all individuals associated with this firm engaged in the purchase and sale of any securities on behalf of our customers, are appropriately licensed prior to undertaking any such activities.

High-Yield Investments

Policy Requirements

Recommended high-yield bonds, which may be speculative and carry a higher current yield, require heightened supervisory oversight. While investors often find the higher yield attractive, such investments can present significant risks and, therefore, suitability is a key issue. We will also include other high-yield investments such as high-yield mutual funds and real estate investment trusts (REITs) in any training received by appropriate registered personnel.

Procedures and Documentation

Our CCO ensures that all registered personnel are aware of suitability issues related to high-yield investment opportunities.

In addition, designated supervising principals are responsible for ongoing monitoring of all securities-related activities engaged in by the individuals under their direct supervision.

Our CCO and our designated supervising principals must ensure that all registered personnel engaged in the high-yield investment transactions are aware of the importance that customers understand the special risks presented by high-yield bonds, and possess the risk tolerance to justify such investments. Registered representatives must also be aware of the customer account information they must obtain and utilize as a basis for approving any such recommendations.

All individuals undertaking internal reviews of customer files and transaction logs will receive sufficient training on how to identify red flags, such as inappropriate and unsuitable concentrations of high-yield bonds, as well as any other potentially unsuitable transactions. These internal reviews, under the direction of our CCO, will occur on an ongoing basis.

Trade Reporting and Compliance Engine (TRACE)

Policy Requirements

The Trade Reporting and Compliance Engine ("TRACE") is the FINRA-developed vehicle that facilitates the mandatory trade reporting of TRACE-eligible securities, as well as the public dissemination of market data, subject to certain restrictions. All broker-dealers who are FINRA member firms have an obligation (under relevant SEC rules) to report transactions in TRACE-eligible securities to TRACE.

TRACE-eligible Securities - Under FINRA Rule 6710, the term "TRACE-eligible security" shall mean a debt security that is United States ("U.S.") dollar-denominated and is:

- issued by a U.S. or foreign private issuer, and, if a "restricted security" as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A;
- issued or guaranteed by an Agency or a Government-Sponsored Enterprise; or
- a U.S. Treasury Security.

"TRACE-Eligible Security" does not include a debt security that is issued by a foreign sovereign or a Money Market Instrument.

The term "Reportable TRACE transaction" shall mean:

Any secondary market transaction in a TRACE-eligible security except: (1) a transaction exempt from reporting as specified in Rule 6730(e), and (2) 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 to any purchaser.

The time for execution for transactions is when the yield for the transaction has been agreed to by the parties to the transaction.

All reported execution times must be in Eastern Standard Time and must be entered in military time format, HHMMSS (except that seconds may be entered as "00" if our system is not capable of reporting seconds).

TRACE Participant: Whether reporting transactions to the TRACE system directly (as an executing broker-dealer) or indirectly (as an introducing broker-dealer with an agreement that the clearing firm undertake TRACE reporting on its behalf), we are a TRACE participant and must submit transaction reports in conformity with FINRA Rule 6700.

Procedures and Documentation

Our Head Trader must ensure that we are in full compliance with all rules relating to TRACE reporting requirements.

Our CCO will utilize the “TRACE Quality of Markets Report Card” to review exceptions.

The designated principal will ensure that our TRACE participation is conditioned upon initial and continuing compliance with the following:

- Execution of and continuing compliance with a TRACE Participant application agreement and all applicable rules and operating procedures of FINRA and the SEC.
- Maintenance of the physical security of the equipment located on the premises of the TRACE Participant to prevent unauthorized entry of information into TRACE.
- The designated principal will immediately notify FINRA of any non-compliance with, or changes to, the above participation requirements.
- Our designated principal will ensure that, in any instance where a clearing firm is conducting TRACE Reporting on our behalf, the clearing agreement must clearly indicate which party is responsible for which required actions under FINRA Rule 6730.
- While the clearing firm may undertake such reporting responsibilities on our behalf, it remains our responsibility to ensure that such reporting is correctly undertaken and that all reports are submitted in a timely manner. This firm retains the ultimate responsibility for all reporting requirements.
- Our designated principal is responsible for obtaining sufficient information and documentation from our clearing firm to ensure:
    - appropriate reports are filed on our behalf
    - the reported information is accurate
    - the reports are submitted in a timely manner
    - any discrepancies are noted and dealt with in a timely and appropriate manner

TRACE Reporting for Trace Eligible Underwritings: Should we at any time act in the capacity of a managing underwriter, underwriter as part of a group of underwriters, or as an initial purchaser if no underwriters are appointed of a distribution of a debt offering, excluding a secondary distribution or offering of a debt security that upon issuance will be a TRACE-Eligible Security ("New issue"), the designated principal will ensure that we obtain and provide information (by facsimile or email) to the FINRA Operations Center. If a managing underwriter (or lead initial purchaser) is not appointed, and there are multiple underwriters (or initial purchasers), the underwriters (or initial purchasers) may submit a single notice containing the required information to FINRA Operations.

For such new issues, the managing underwriter, group of underwriters, or initial purchasers must provide to the FINRA Operations Center descriptive information about the offering as detailed in Rule 6760. Examples of such information include, but are not limited to: (1) the CUSIP number; (2) the issuer name; (3) the coupon rate; (4) the maturity; (5) whether Securities Act Rule 144A applies; (6) the time that the new issue is priced, and, if different, the time that the first transaction in the distribution or offering is executed; (7) a brief description of the issue (e.g., senior subordinated note, senior note) and (8) such other information FINRA deems necessary to properly implement the reporting and

dissemination of a TRACE-Eligible Security, or if any of items (2) through (8) has not been determined or a CUSIP number will not be assigned, such other information as FINRA deems necessary.

The managing underwriter or if a managing underwriter is not appointed, an underwriter, or, if there are no underwriters, an initial purchaser must obtain the CUSIP number (or a FINRA symbol or a similar numeric identifier) and provide it and the information listed as (2) through (8) prior to the execution of the first transaction in the distribution or offering.

For distributions or offerings of new issues that are priced and commence on the same business day between 9:30 a.m. Eastern Time and 4:00 p.m. Eastern Time, the person or persons required to provide information to FINRA Operations must provide as much of the information set forth above that is available prior to the execution of the first transaction in the distribution or offering and all other information required under this Rule within 15 minutes of the Time of Execution of the first transaction in such distribution or offering. The managing underwriter, or if a managing underwriter is not appointed, an underwriter, or, if there are no underwriters, an initial purchaser must make a good faith determination that the security is a TRACE-Eligible Security before submitting the information to FINRA Operations.

At least annually, our CCO will undertake a complete review of all TRACE reporting activities to ensure that:

- all appropriate rules were followed when information was filed with TRACE Operations
- the reported information was accurate
- the information was submitted to the TRACE Operations in a timely manner
- any discrepancies were noted and dealt with in a timely and appropriate manner

TRACE Quality of Markets Report Card: The designated principal and our CCO will obtain the "TRACE Quality of Markets Report Card" which will provide us with information relating to certain potential exceptions identified in our transaction reports to TRACE.

This report will be used to monitor and review certain aspects of our TRACE reporting in relation to industry and peer group statistics. In addition, a separate available file, providing detail of each trade report identified as a potential exception, will be reviewed.

Equities

Control/Restricted Securities (144 Stock)

Procedures and Documentation

Rule 144 imposes a one-year holding period prior to any public resale on restricted securities of companies that are not subject to the Exchange Act reporting requirements.

Before reselling restricted securities, firms must take reasonable steps to ensure that the transaction complies with Rule 144 or another available exemption. The factors set forth in the Notes to Rule 144(g)

serve as a pragmatic guideline in determining what questions firms should ask their customers before engaging in an unregistered resale of securities:

- How long has the customer held the security?
- 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 the securities?
- How many shares or other units of the class are outstanding, and what is the relevant trading volume?

Firms should also try to physically inspect share certificates, if possible, as an opportunity to identify red flags and deter risks from forgery and fraudulent certificates.

Further, we must:

- Determine whether the client is, or ever was, an officer, director or similar official of the issuer whose certificates are deposited with the firm.
- Ask the client whether he or she has a contractual, or other, arrangement with the issuer.
- Inquire into how, and from whom, the client acquired the securities.
- Obtain complete background information for any new account, including current business connections, as well as any long-term prior business activities. The supervising principal will not approve new accounts without adequate business-related client information.
- Refuse a client order to sell control or restricted securities without prior approval from a designated supervising principal, who will evidence review of the appropriateness of the transaction by initials and date.

Our CCO will oversee periodic, at least quarterly, customer account reviews. This review will ascertain that orders involving the sale of unregistered stock or the purchase or sale of stock in a company in which the customer or a close relative of the customer has a control position have not been effected by a registered representative without prior approval from his/her supervising principal. If any of these involve options, approval must have been obtained from an appropriately licensed Options Principal.

It is the policy of this firm to not do a sell order for a stock without having the stock in-hand, or in an account with our clearing firm. At the time the certificate is received, the back and front of the stock will be examined for any endorsements regarding restrictions and/or controls of the stock.

In addition, registered personnel are required to have completed and in hand - prior to the trade - a signed and completed New Account Form for that client. The designated principal will review this New Account Form and either approve or return it for clarification prior to, or within two days following, the initial transaction.

Approval for the sale will be given only after our CCO, or a specifically designated principal, determines that the sale follows each provision of Rule 144 under the Securities Act of 1933. This determination will consider, among other things, the availability of current public information regarding the issuer, limitations on the amount of securities sold and holding period requirements.

Penny Stocks/Designated Securities

Policy Requirements

Our CCO will oversee all penny stock transactions on an ongoing basis to ensure full compliance.

Exempt Transactions: We are exempt from the disclosure and recordkeeping requirements of the penny stock disclosure rules, SEC Exchange Act Rules 15g-2 through 15g-6, if:

- We do less than five percent of our business in penny stocks AND we have not been a market maker in the penny stock that is the subject of the transaction in the preceding twelve months. Note that the rule specifically indicates during.. "each of the preceding three months and during eleven or more of the preceding twelve months, or the previous six months."; or
- The transaction meets the requirements of Regulation D or are transactions with an issuer not involving any public offering; or
- The transactions are for purchasers who are institutional, accredited investors; or
- The transactions are not recommended by our sales personnel; or
- The transactions involve customers who are the issuers, or directors, officers, general partners, or direct or indirect beneficial owners of more than 5 percent of any class of equity security of the issuer of the penny stock that is the subject of the transaction.

Procedures and Documentation

Our CCO will continuously verify our eligibility for an exemption and will notify all appropriate individuals when an exemption is no longer applicable. We will maintain documentation of our rationale for claiming an exemption in the files.

If we are not exempt, we will adhere to the following policies and procedures:

Prior to transacting business in penny stocks, the designated principal must approve the customer's account for such transactions and receive the customer's written agreement that provides the identity and quantity of the penny stock to be purchased.

In addition, the customer will receive a Risk Disclosure Document, as specified by the SEC. We must receive and maintain a written acknowledgement from the customer indicating that he or she has received the Risk Disclosure Document. Our review of such receipt will be evidenced by the designated principal’s initials and date.

Furthermore, specific suitability and disclosure obligations are required pursuant to SEC Exchange Act Rule 15g, FINRA Rule 2111, and Regulation Best Interest. Prior to transacting business in penny stocks, supervising principals must ensure that the individuals under their supervision adhere to the following:

- We are required by law to obtain information about the customer's financial situation, investment experience and objectives. We will use this information to determine whether penny stocks are suitable for the person, and whether the customer or their adviser has sufficient knowledge and experience in financial matters to evaluate the risks of transactions in penny stocks.
- We will disclose current bid and ask quotations. If these are unavailable, we will then look to our own bid and offer quotes for disclosure to the customer, in compliance with SEC Rule 15g-3.
- We will disclose to the customer the compensation being made to this firm or to a specific salesperson in the transaction in compliance with Rules 15g-4 and 15g-5.
- We will deliver to customers monthly account statements showing the market value of each penny stock held in the customer's account in compliance with Rule 15g-6.
- We will deliver to customers the SEC's "Risk Disclosure Document" as required by SEC Rule 15g-2 and obtain a signed and dated acknowledgment of receipt. The form may be copied on plain paper, but not on letterhead, and may not be altered in any way. This document explains risks and concepts, lists the firm's duties to customers, customer rights and remedies, and provides a toll-free number for customer inquiries about disciplinary history.

Rule 15g-9 specifies certain sales practice requirements overseen by supervising principals for certain low-priced securities:

a. It is unlawful for a broker or dealer to sell a penny stock to, or to affect the purchase of, a penny stock by any person unless:
    1. The transaction is exempt under paragraph (c) of this section; or
    2. Prior to the transaction:
        i. The broker or dealer has approved the person's account for transactions in penny stocks in accordance with the procedures set forth in paragraph (b) of this section; and
        ii. The broker or dealer has received from the person a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.
b. To approve a person's account for transactions in penny stocks, the broker or dealer must:
    1. Obtain from the person information concerning the person's financial situation, investment experience, and investment objectives;
    2. Reasonably determine, based on the information required by paragraph (b)(1) of this section and any other information known by the broker-dealer, that transactions in penny stocks are suitable for the person, and that the person, or the person's independent adviser in these transactions, has sufficient knowledge and experience in financial matters that the person, or the person's independent adviser in these transactions, reasonably may be expected to be capable of evaluating the risks of transactions in penny stocks;
    3. Deliver to the person a written statement:
        i. Setting forth the basis on which the broker or dealer made the determination required by paragraph (b)(2) of this section;
        ii. Stating in a highlighted format that it is unlawful for the broker or dealer to effect a transaction in a penny stock subject to the provisions of paragraph

(a)(2) of this section unless the broker or dealer has received, prior to the transaction, a written agreement to the transaction from the person; and

iii. Stating in a highlighted format immediately preceding the customer signature line that:

A. The broker or dealer is required by this section to provide the person with the written statement; and

B. The person should not sign and return the written statement to the broker or dealer if it does not accurately reflect the person's financial situation, investment experience, and investment objectives; and

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

c. For purposes of this section, the following transactions shall be exempt:
   1. Transactions that are exempt under 17 CFR 240.15g-1(a), (b), (d), (e) and (f);
   2. Transactions that meet the requirements of 17 CFR 230.505 and 230.506 (including, where applicable, the requirements of 17 CFR 230.501 through 230.503, and 230.507 through 230.508), or transactions with an issuer not involving any public offering pursuant to Section 4(2) of the Securities Act of 1933; and/or
   3. Transactions in which the purchaser is an established customer of the broker or dealer.

d. For purposes of this section:
   1. The term "penny stock" shall have the same meaning as in 17 CFR 240.3a51-1;
   2. The term "established customer" shall mean any person for whom the broker or dealer, or a clearing broker on behalf of such broker or dealer, carries an account, and who in such account:
      i. Has conducted a securities transaction, or made a deposit of funds or securities, more than one (1) year previously; or
      ii. Has made three purchases of penny stocks that occurred on separate days and involved different issuers.

NOTE: An "established customer" is NOT exempt from Rules 15g-2 through 15g-6.

Prior to effecting a transaction in a penny stock, the broker-dealer must disclose, and subsequently confirm in writing at or prior to the confirmation, to the customer:

1. The inside bid quotation and the inside offer quotation.
2. If inside quotation information is unavailable, the broker-dealer must look to its own bid and offer quotes for disclosure to the customer, provided:
   a. The broker-dealer has effected at least three bona fide inter-dealer transactions consistently at its bid or offer prices over the previous five business days;
   b. No less than seventy-five percent (75%) of these transactions have occurred consistently at such quotes; and
   c. The broker-dealer believes that such quotes accurately reflect the prices at which it is prepared to trade with other dealers.

If we cannot meet the referenced standard, Rule 15g-3 specifies that we must state to the customer that we have not traded consistently at its quotes and we must disclose the price at which we last purchased or sold the penny stock to another dealer in a bona fide transaction.

Rule 15g-4: Prior to effecting a trade in a penny stock, the broker-dealer must disclose, and subsequently confirm in writing to the customer at or prior to the confirmation, the aggregate amount of compensation received relating to the transaction.

Rule 15g-5: Prior to effecting a transaction in a penny stock, the broker-dealer must disclose, and subsequently confirm in writing to the customer at or prior to the confirmation, the aggregate amount of cash compensation to be received by the associated person (registered representative) who communicated with the customer concerning the transaction. This would include separate disclosure, if applicable, of the source and amount of such compensation that is not paid by the broker-dealer. This does not apply to persons whose function is solely clerical or ministerial.

Rule 15g-6: We must provide penny stock customers with an account statement containing the following information:

1. The identity and number of shares or units of each security held for the customer's account; and
2. The estimated market value of the security, to the extent such value can be determined, as follows:
    a. The highest inside bid quotation on the last trading day;
    b. In the absence of a bid, the weighted average price per share paid by the broker dealer as set forth in the Rule; or
    c. If neither are applicable, a statement that there is "no estimated market value."
3. The legend specified by the SEC as set forth in Rule 15g-6.

Supervising principals will, by their signature or initials on new account forms and order tickets, evidence their review indicating that all the applicable disclosures and requirements have been met.

Annually, our CCO will ensure that a review is taken of all penny stock transactions to ensure that appropriate disclosures were made and that all required customer documents have been received.

Exchange Traded Funds: Non-Traditional (Leveraged and Inverse)

Policy Requirements

From FINRA Regulatory Notice 09-31: *"Exchange-traded funds (ETFs) that offer leverage or that are designed to perform inversely to the index or benchmark they track—or both—are growing in number and popularity. While such products may be useful in some sophisticated trading strategies, they are highly complex financial instruments that are typically designed to achieve their stated objectives daily. Because of compounding, their performance over longer periods of time can differ significantly from their stated daily objective. Therefore, inverse and leveraged ETFs that are reset daily typically are unsuitable for retail investors who plan to hold them for longer than one trading session, particularly in volatile markets.*

This Notice reminds firms of their sales practice obligations regarding leveraged and inverse ETFs. Recommendations to customers must be suitable and based on a full understanding of the terms and features of the product recommended; sales materials related to leveraged and inverse ETFs must be fair and accurate; and firms must have adequate supervisory procedures in place to ensure that these obligations are met."

In January 2019, FINRA published its Annual Risk Monitoring and Examination Priorities Letter, where FINRA announced plans to evaluate whether firms are meeting their suitability obligations and risk disclosure obligations when recommending products such as leveraged and inverse exchange-traded funds (ETFs), floating-rate loan ETFs (also known as bank-loan or leveraged loan funds) and mutual funds that invest in loans extended to highly indebted companies of lower credit quality.

In January 2020, OCIE published its 2020 Examination Priorities, where it stated that it will continue to prioritize the examination of ETFs, including the activities of their registered investment advisers and oversight practices of their boards of directors.

Procedures and Documentation

Our CCO, working with supervising principals overseeing individuals engaged in Exchange Traded Fund transactions, will ensure that FINRA Regulatory Notice 09-31 is appropriately disseminated and that we have appropriate supervisory procedures in place to ensure compliance with these guidelines.

All recommended ETF transactions are required to be reviewed by a supervising principal to ensure that two "suitability" components have been met:

1. the product itself is suitable for any customer (requiring a full understanding of the product and transaction being recommended),
2. the product is suitable for the specific customer to whom it was recommended ("customer specific suitability" analysis required)

On an ongoing basis, our CCO will undertake an annual review of all recommended ETF transactions to ensure complete suitability procedures have been followed.

Our CCO will also undertake an annual review of all sales materials and scripts utilized in oral presentations to ensure they present a fair and balanced picture of both the risks and benefits and that they do not omit any material fact or qualification that would cause such a communication to be misleading.

Municipal Securities

Advertising (MSRB Rule G-21)

Policy Requirements

Rule G-21 sets forth general provisions, addresses professional advertisements and requires principal approval in writing for advertisements by brokers, dealers or municipal securities dealers before their first use and also for a record of all such advertisements to be kept.

On May 7, 2018, the MSRB received approval from the SEC to amend Rule G-21. The amendments to Rule G-21 (i) provide more specific content standards for advertisements by brokers, dealers or municipal securities dealers, (ii) revise the rule's general standards for advertisements, and (iii) reconcile analogous provisions relating to the definition of "form letter" in Rule G-21 with the definition of correspondence in FINRA Rule 2210, on communications.

The new content standards state:

- All advertisements by a broker, dealer or municipal securities dealer (collectively, dealers) must be based on the principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular municipal security or type of municipal security, industry or service. No broker, dealer or municipal securities dealer may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the advertisements to be misleading.
- No dealers may make any false, exaggerated, unwarranted, promissory or misleading statement or claim in any advertisement.
- Dealers may place information in a legend or footnote only in the event that such placement would not inhibit a customer's or a potential customer's understanding of the advertisement.
- Dealers 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. An advertisement must be consistent with the risks inherent to the investment.
- Dealers must consider the nature of the audience to which the advertisement will be directed and must provide details and explanations appropriate to the 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; provided, however, that this does not prohibit: A hypothetical illustration of mathematical principles, provided that it does not predict or project the performance of an investment; and
    - An investment analysis tool, or a written report produced by an investment analysis tool.
- If an advertisement contains a testimonial about a technical aspect of investing, the person making the testimonial must have the knowledge and experience to form a valid opinion.
- If an advertisement contains a testimonial about the investment advice or investment performance of a broker, dealer or municipal securities dealer or its products, that advertisement 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.

Dealers may indicate registration with the Municipal Securities Rulemaking Board in any advertisement that complies with the applicable standards of all other Board rules and that neither states nor implies that the Municipal Securities Rulemaking Board or any other corporate name or facility owned by the Municipal Securities Rulemaking Board, or any other regulatory organization endorses, indemnifies, or guarantees the broker, dealer or municipal securities dealer's business practices, selling methods, the class or type of securities offered, or any specific security.

On February 26, 2019, the MSRB provided social media guidance and related rule amendments to Rule G-21. Rule 21(g) exempts interactive content that is an advertisement and that is posted or disseminated in an interactive electronic forum from the requirement for principal approval. Interactive content refers to content that is posted or disseminated for direct, real-time interaction with the audience. Examples of interactive content include, but are not limited to, chats and messaging.

To address the supervision and review of interactive content, the MSRB added supplementary material to amended Rules G-21. Amended Rule G-21 includes Supplementary Material .04 that provides that notwithstanding Rule G-21(g), a dealer must supervise and review interactive content in the same manner in which that dealer supervises and reviews correspondence under Rule G-27(e), on review of correspondence.

The effective date for the amendments to G-21 is August 23, 2019.

Procedures and Documentation

Our CCO ensures the distribution of Rule G-21 to all individuals engaged in activities that require compliance under this rule. Our CCO will review all advertisements before their first use and will keep a record of all such advertisements.

Our CCO ensures compliance with Rule G-21 and performs a written review of every advertisement before first use to ensure the ads:

- Are drafted on the principles of good faith and fair dealing, are fair and balanced, provide a sound basis for evaluating the municipal security or type of municipal security, industry or service, and that no material facts are omitted which would cause the ad to be misleading;
- Do not contain false, exaggerated, unwarranted, promissory or misleading statements or claims;
- Containing a testimonial about a technical aspect of investing, that the person making the testimonial must have the knowledge and experience to form a valid opinion;
- Containing a testimonial about investment advice or investment performance of a broker, dealer or municipal securities dealer or its products, that the advertisement 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.

- Provide statements that are clear and not misleading within the context that they are made, that the advertisement provides a balanced treatment of risks and potential benefits, and that the advertisement is consistent with the risks inherent to the investment;
- Provide details and explanations appropriate to the audience to which the ad is directed toward;
- Do not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast;
- Limit information in any legends or footnotes so as to not inhibit a client or potential client's understanding of the ad; and
- May indicate that the firm is MSRB registered, and if so, the advertisement must comply with the applicable standards of all other Board rules and that the ad neither states nor implies that the Municipal Securities Rulemaking Board or any other corporate name or facility owned by the Municipal Securities Rulemaking Board, or any other regulatory organization endorses, indemnifies, or guarantees the broker, dealer or municipal securities dealer's business practices, selling methods, the class or type of securities offered, or any specific security.

In addition, a record of all ads will be maintained by the firm.

On an ongoing basis, our CCO will undertake a review of all advertisements to determine that the correct procedures were followed. We will maintain documentation of the review, indicating date of review, names of individuals undertaking the review, scope of the review and any findings.

Annual MSRB Fees (MSRB Rules A-11 and A-12)

Rule A-11

On September 11, 2019, the MSRB modified MSRB Rule A-11, which requires each SEC-registered municipal advisor firm to pay the MSRB an annual professional fee for each person associated with the municipal advisor who is qualified as a municipal advisor representative in accordance with Rule G-3 and for whom the municipal advisor firm has on file with the SEC a Form MA-I as of January 31 of each year.

The amendment raises the fee from $500 to $1000 over a two year phase-in period. MSRB fiscal year 2020 (October 1, 2019 to September 30, 2020) will be year one of the phase-in period, and the annual municipal advisor professional fee will be increased to $750 for that fiscal year. The modified annual municipal advisor professional fee will be fully phased-in during MSRB fiscal year 2021 (October 1, 2020 to September 30, 2021), and municipal advisors will be assessed $1,000 for that fiscal year and each year thereafter.

The first payment at the amended rate is due by April 30, 2020.

Rule A-12

In addition to any other fees prescribed by the rules of the MSRB, we are required to pay an annual MSRB fee of $1000 each fiscal year in which we conduct municipal securities activities.

This fee must be received at the office of the MSRB no later than October 31 of the fiscal year for which the fee is paid, accompanied by the invoice sent to us by the MSRB.

Policies

On October 15th of each year, our CCO will ensure that our FINOP is aware that we are required to submit our annual professional fee and registration payments, as required by MSRB Rules A-11 and A-12.

A copy of the invoice and payment will be retained by our FINOP.

Best Execution (MSRB Rule G-18)

In January 2020, OCIE released its 2020 Examination Priorities, where it stated that it will examine broker-dealer trading activity in municipal and corporate bonds for compliance with best execution obligations; fairness of pricing, mark-ups and mark-downs, and commissions; and confirmation disclosure requirements, including retail disclosures relating to mark-ups and mark-downs.

Procedures and Documentation

Our MSRB Principal, and all principals overseeing municipal transactions will ensure that all requirements of MSRB Rule G-18 are adhered to.

Appropriate senior management, working with MSRB Principals, will review FINRA's Regulatory Notice 15-46, "Guidance on Best Execution Obligations in Equity, Options and Fixed income Markets," in order to implement all appropriate suggested procedures for overseeing best execution practices of this firm.

Our CCO is responsible for ensuring, via a review, we have implemented reasonable diligence to ascertain the best market for the subject security, and buy or sell in that market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.

The annual review will determine if our MSRB Principals have used "reasonable diligence" by taking the following factors into account:

- 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;
- the accessibility of quotations; and
- the terms and conditions of the customer's inquiry or order, including any bids or offers, that result in the transaction, as communicated to the dealer.

In transactions for or with a customer (or a customer of another dealer), we cannot have a third party between us and the best market in a manner inconsistent with paragraph (a) of Rule G-18.

In MSRB Rule G-18, Supplemental Material .08 requires firms to conduct annual reviews of its policies and procedures for determining the best available market for the executions of its customers' transactions. Although a more frequent review is not specifically required, a dealer must conduct these

reviews at a frequency reasonably related to the nature of its municipal securities business, including but not limited to its level of sales and trading activity. In conducting its periodic reviews, a dealer must assess whether its policies and procedures are reasonably designed to achieve best execution, taking into account the quality of the executions the dealer is obtaining under its current policies and procedures, changes in market structure, new entrants, the availability of additional pre-trade and post-trade data, and the availability of new technologies, and to make any necessary modifications promptly to such policies and procedures as may be appropriate in light of such reviews.

In addition, a dealer that routes its customers' transactions to another dealer that has agreed to handle those transactions as agent or riskless principal for the customer (e.g., a clearing firm or other executing dealer) may rely on that other dealer's periodic reviews as long as the results and rationale of the review are fully disclosed to the dealer and the dealer periodically reviews how the other dealer's review is conducted and the results of the review.

The obligations described above apply to transactions in which we are acting as agent or principal. (These obligations are distinct from the fairness and reasonableness of commissions, markups or markdowns, which are governed by Rule G-30.)

Books and Records (MSRB Rule G-8)

Policy Requirements

Municipal Advisor Records. Every municipal advisor that is registered or required to be registered under section 15B of the Act shall create and keep current the following books and records:

i. *General Business Records*. All books and records described in Rule 15Ba1-8(a)(1)-(8) under the Act.
ii. *Records Concerning Compliance with Rule G-20*.
    A. a separate record of any gift or gratuity subject to the general limitation of Rule G-20(c); and
    B. all agreements referred to in Rule G-20(f) and records of all compensation paid as a result of those agreements.
iii. *Records Concerning Political Contributions and Prohibitions on Municipal Advisory Business Pursuant to Rule G-37*.
iv. *Records Concerning Duties of Non-Solicitor Municipal Advisors pursuant to Rule G-42*.
v. *Records Concerning Compliance with Rule G-44*.
    A. The written supervisory procedures required by Rule G-44(a)(i);
    B. A record of all designations of persons responsible for supervision as required by Rule G-44(a)(ii);
    C. Records of the reviews of written compliance policies and written supervisory procedures as required by Rule G-44(a) and (b);
    D. A record of all designations of persons as chief compliance officer as required by Rule G-44(c);
    E. The annual certifications as to compliance processes required by Rule G-44(d); and

F. Any certifications made as to substantially equivalent supervisory and compliance obligations and books and records requirements pursuant to Rule G-44(e).

vi. *Municipal Advisory Client Complaints.* A record of all written complaints of municipal advisory clients or persons acting on behalf of municipal advisory clients that are received by the municipal advisor. This record must include the complainant's name, address, and municipal advisory client number or code, if any; the date the complaint was received; the date of the activity that gave rise to the complaint; the name of each associated person of the municipal advisor identified in the complaint; a description of the nature of the complaint; and what action, if any, has been taken by such municipal advisor in connection with each such complaint. In addition, this record must be kept in an electronic format using the complaint product and problem codes set forth in the Municipal Securities Rulemaking Board Rule G-8 Customer and Municipal Advisory Client Complaint Product and Problem Codes Guide.

The term "written," for the purposes of this paragraph, shall include electronic correspondence. The term "complaint" shall mean any written statement alleging a grievance involving the municipal advisory activities of the municipal advisor or any associated person of such municipal advisor.

vii. *Records Concerning Compliance with Continuing Education Requirements*

A. Copies of the municipal advisor's needs analysis and written training plan as required by subparagraphs (i)(ii)(B)(1) and (i)(ii)(E)(1) of Rule G-3;and

B. Records documenting the content of the training programs and completion of the programs by each covered person as required by Rule G-3(i)(ii)(B)(3).

Procedures

Our MSRB Principal(s) will ensure that all books and records required under G-8 are appropriately and accurately maintained.

Complaints

Procedures and Documentation

Our designated Municipal Securities Principal ensures that all municipal-securities-related complaints are appropriately handled, both in terms of MSRB Rule G-10 (Investor and Municipal Advisory Client Education and Protection) and attendant FINRA rules.

Our Municipal Securities Principal must make certain, in accordance with MSRB Rule G-10, that once every calendar year, provide in writing (which may be electronic) to each customer:

- A statement that the firm is registered with the SEC and the MSRB
- The website address for the MSRB; and
- A statement to the customer that an investor brochure is available on the website of the MSRB that describes the protection that may be provided by the MSRB rules and how to file a complaint with an appropriate regulatory authority.

MSRB Investor Brochures can be obtained using the MSRB Publications Order Form, available in the MSRB Manual, in MSRB Reports, by phone or downloaded off the Internet (www.msrb.org).

In addition, our Municipal Securities Principal must ensure that all complaint information is made available to the individual responsible for filing complaints with FINRA and document all such notification for the file.

All records relating to the complaint must be maintained, including:

- the complainant's name, address and municipal advisory client number or code, if any;
- the date the complaint was received;
- the date of the activity that gave rise to the complaint;
- the name of the associated person identified in the complaint;
- a description of the nature of the complaint; and
- the action that has been taken by the municipal advisor in response to such complaint.

These records must be kept in an electronic format using the complaint product and problem codes that have been set forth by the MSRB in Rule G-8.

Consultants

Procedures and Documentation

Our Municipal Securities Principal must ensure that we are in full compliance with MSRB Rule G-38 governing the use of consultants in our municipal securities business.

MSRB Rule G-38 requires that we disclose information about consultant arrangements to issuers and to the public.

At least monthly, our Municipal Securities Principal must review all activities of our municipal securities business to make certain that any information required to be disclosed under Rule G-38 is promptly, completely and correctly reported.

The use of a consultant conducting any direct or indirect communication with an issuer on our behalf is not permitted prior to obtaining a consultant agreement stating the name, company, role and compensation arrangement of each such consultant.

All such consultant agreements will be maintained and reviewed, evidenced by initials and dates, to determine whether they require revisions or alterations at any time.

If we continue to use a consultant to obtain or to retain municipal securities business, our Municipal Securities Principal will ensure that we report information concerning such consultant every quarter, whether compensation is paid to the consultant during the reporting time.

Our Municipal Securities Principal will maintain documentation concerning all compliance efforts relating to MSRB Rule G-38.

Control Relationships (MSRB Rule G-22)

Policy Requirements

Rule G-22.

a. *Control Relationship*. For purposes of this rule, a control relationship with respect to a municipal security shall be deemed to exist if a broker, dealer or municipal securities dealer (or a bank or other person of which the broker, dealer or municipal securities dealer is a department or division) controls, is controlled by or is under common control with the issuer of the security or a person other than the issuer who is obligated, directly or indirectly, with respect to debt service on the security.
b. *Discretionary Accounts*. THIS PORTION OF MSRB RULE G-22 IS NOT APPLICABLE AS BROKER-DEALERS ARE NOT PERMITTED TO MAINTAIN DISCRETIONARY ACCOUNTS.
c. *Disclosure*. No broker, dealer or municipal securities dealer shall affect a transaction in a municipal security with or for a customer if it has a control relationship with respect to the security unless, before entering into a contract with or for the customer for the purchase, sale or exchange of such security, the broker, dealer or municipal securities dealer discloses to the customer the nature of the control relationship. If such disclosure is not made in writing, it must be supplemented by sending written disclosure concerning the control relationship at or before the completion of the transaction.

Procedures and Documentation

Our Municipal Securities Principal must ensure that all control relationships are known prior to effecting a municipal security transaction, and that all individuals engaged in municipal securities transactions are aware of the control-relationship disclosure requirements.

Annually, our CCO must ensure that a review is undertaken to verify that all control-relationship transactions generated a timely disclosure.

Customer Account Transfers (MSRB Rule G-26)

Policy Requirements

Rule G-26 requires dealers to cooperate in the transfer of customer accounts and specifies procedures for carrying out the transfer process. The MSRB adopted Rule G-26 in 1986 as part of an industry-wide initiative to create a uniform customer account transfer standard by applying a customer account transfer procedure to all dealers that are engaged in municipal securities activities. The uniform standard for all customer account transfers is largely driven by the National Securities Clearing Corporation's (NSCC) Automated Customer Account Transfer Service (ACATS). The MSRB adopted Rule G-26 in conjunction with the adoption of similar rules by other self-regulatory organizations (SROs). Rule G-26 governs the municipal security-only customer account transfers performed by those dealers to ensure that all customer account transfers are subject to regulation that is consistent with the uniform industry standard. Thus, in order to maintain consistency and the uniform standard, the MSRB has, from time to time, modified the requirements of Rule G-26 to conform to certain provisions of the parallel

customer account transfer rules of other SROs, as well as to enhancements made to the ACATS process by NSCC, that had relevance to municipal securities. Therefore, in July 2017, the MSRB amended Rule G-26 to modernize the rule and promote a uniform customer account transfer standard for all dealers.

Procedures and Documentation

Our MSRB Principal, working with other associated personnel as appropriate (i.e., Operations, Compliance, etc.) must ensure that when a customer with a municipal securities account has given us written notice to transfer its entire account to another broker-dealer and such wishes are promptly adhered to, following either MSRB Rule G-26 or appropriate FINRA Rule procedures.

Our Municipal Securities Principal must ensure that all individuals engaged in municipal securities activities are aware of account transfer rules, requirements and procedures.

Annually, our Municipal Securities Principal will ensure that a review of all account transfers is undertaken to determine such transfers were appropriately handled to comply with all applicable rules and regulations.

Disclosure via MSRB's Electronic Municipal Market Assess (EMMA) System

Policy Requirements

While SEC Rule 15c2-12 regarding municipal securities disclosure mainly addresses disclosure obligations required of municipal securities issuers, any broker-dealer who makes municipal purchase or sale recommendations must adhere to paragraph (c) of Rule 15c2-12.

The MSRB established EMMA, an electronic system for free public access to, among other things, primary market disclosure documents for the municipal securities market. All applicable disclosures required under 15c2-12 must be made through EMMA.

EMMA has been established as a permanent primary market disclosure service for electronic submission and public availability on EMMA's internet portal ("the EMMA portal") of official statements, advance refunding documents and related primary market documents and information.

Procedures and Documentation

Our Municipal Securities Principal must ensure that we are in full compliance with EMMA submissions and SEC Rule 15c2-12(c) when recommending the purchase or sale of a municipal security.

Our Municipal Securities Principal will not sign off on a recommended municipal transaction without having an assurance that we have adhered to our procedures concerning receipt of prompt notice of any material event.

For all recommended municipal transactions, the Official Statement is reviewed by the Municipal Securities Principal to determine whether appropriate disclosure has been made of how information on any material event can be accessed. If this information is not contained in the Official Statement, the

issuer will be contacted for further information about how the material event will be disclosed and where the information can be assessed. Upon determining that the information is contained within the Offering Statement or obtaining the information from the issuer, the Municipal Securities Principal will sign off on the information and Offering Statement, indicating that the specific municipal security may be recommended to our customers.

If necessary, we will access EMMA and other publicly available databases (e.g., Bloomberg) to determine where to find relevant information on a municipal bond. For municipal securities transactions for which we access a publicly available database, we will distribute information about EMMA and what other databases can be accessed when recommending that bond. Our Municipal Securities Principal will not approve the transaction without proof of a successful EMMA and other database search.

Annually, our CCO will undertake a sample review of recommended municipal securities transactions to determine that we have adhered to the above policies and procedures.

Our Municipal Securities Principal will develop appropriate policies and procedures to best comply with SEC Rule 15c2-12, drawing on MSRB Notice 2009-37 and FINRA Notice 09-35 which discuss the July 1, 2009 launch of the Continuing Disclosure Service of the MSRB's Electronic Municipal Market Access System ("EMMA") to determine how we will continue.

Primary Offering EMMA Submissions

- Pursuant to MSRB Rule G-32, our CCO, working with our Municipal Securities Principal, will ensure that in any primary offering for which a document or information is to be submitted to EMMA, shall submit Form G-32 for a primary offering initiated on or prior to the date of first execution with the submission of CUSIP numbers (except if such CUSIP numbers are not required under Rule G-34 and have not been assigned), initial offering prices or yields (including prices or yields for maturities designated as not reoffered), if applicable, the expected closing date, whether the issuer or other obligated persons have agreed to undertake to provide continuing disclosure information as contemplated by Securities Exchange Act Rule 15c2-12, and if there was a retail order period (as defined in Rule G-11(a)(vii)) as part of a primary offering, information indicating whether a retail order period was conducted, each date and each time (beginning and end) it was conducted, together with such other items of information as set forth in Form G-32 and the EMMA Dataport Manual

Financial Adviser Activities (MSRB Rule G-23)

Policy Requirements

The purpose and intent of MSRB Rule G-23 is to establish ethical standards and disclosure requirements for brokers, dealers and municipal securities dealers who act as financial advisors to issuers of municipal securities.

Under G-23 a financial advisory relationship shall be deemed to exist when we enter into an agreement to provide financial advisory or consultant services to or on behalf of an issuer on a new issue or issues of municipal securities, including advice on the structure, timing, terms and other similar matters, for a

fee or other compensation or in expectation of such compensation for the rendering of such services. A financial advisory relationship shall not be deemed to exist when, while acting as an underwriter, we render advice to an issuer, including advice with respect to the structure, timing, terms and other similar matters concerning a new issue of municipal securities.

Each financial advisory relationship shall be evidenced in writing, either prior to, upon or promptly after the inception of the financial advisory relationship, setting forth the compensation for the financial advisory services, including provisions for the deposit of funds with or the use of fiduciary or agency services offered by such broker, dealer, or municipal securities dealer or by a person controlling, controlled by, or under common control with such broker, dealer, or municipal securities dealer in connection with the rendering of such financial advisory services.

No broker, dealer, or municipal securities dealer that has a financial advisory relationship with respect to a new issue of municipal securities shall acquire as principal either alone or as a participant in a syndicate or other similar account formed for purchasing, directly or indirectly, from the issuer all or any portion of such issue, or act as agent for the issuer in arranging the placement of such issue, unless:

i. if such issue is to be sold by the issuer on a negotiated basis,
    A. the financial advisory relationship for the issue has been terminated in writing and at or after such termination the issuer has expressly consented in writing to such acquisition or participation, as principal or agent, in the purchase of the securities on a negotiated basis;
    B. the broker, dealer, or municipal securities dealer has expressly disclosed in writing to the issuer at or before such termination that there may be a conflict of interest in changing from the capacity of financial advisor to purchaser of or placement agent for the securities for which the financial advisory relationship exists and the issuer has expressly acknowledged in writing to the broker, dealer, or municipal securities dealer receipt of such disclosure; and
    C. the broker, dealer, or municipal securities dealer has expressly disclosed in writing to the issuer at or before such termination the source and anticipated amount of all remuneration to the broker, dealer, or municipal securities dealer in addition to the compensation referred to in section (c) of this rule, and the issuer has expressly acknowledged in writing to the broker, dealer, or municipal securities dealer receipt of such disclosure.
ii. if such issue is to be sold by the issuer at competitive bid, the issuer has expressly consented in writing prior to the bid to such acquisition or participation.

The limitations and requirements set forth shall also apply to any broker, dealer, or municipal securities dealer controlling, controlled by, or under common control with the broker, dealer, or municipal securities dealer having a financial advisory relationship. The use of the term "indirectly" shall not preclude a broker, dealer, or municipal securities dealer who has a financial advisory relationship with a new issue of municipal securities from purchasing such securities from an underwriter, either for its own trading account or for the account of customers, except to the extent that such purchase is made to contravene the purpose and intent of this rule.

No broker, dealer, or municipal securities dealer that has a financial advisory relationship with an issuer shall act as agent for the issuer in remarketing the issue, unless the broker, dealer, or municipal securities dealer has expressly disclosed in writing to the issuer:

i. that there may be a conflict of interest in acting as both financial advisor and remarketing agent for the securities for which the financial advisory relationship exists; and
ii. the source and basis of the remuneration to the broker, dealer or municipal securities dealer could earn as remarketing agent on such issue.

This written disclosure to the issuer may be included either in a separate writing provided to the issuer prior to the execution of the remarketing agreement or in the remarketing agreement. The issuer must expressly acknowledge in writing to the broker, dealer, or municipal securities dealer receipt of such disclosure and consent to the financial advisor acting in both capacities and to the source and basis of the remuneration.

If the financial advisor for the issue is not a broker, dealer or municipal securities dealer, and the broker, dealer or municipal securities dealer that acquires the issue or arranges for such acquisition pursuant to section (d) of this rule is controlling, controlled by, or under common control with such financial advisor, the broker, dealer or municipal securities dealer must disclose this affiliation in writing to the issuer prior to the acquisition and the issuer has expressly acknowledged in writing to the broker, dealer, or municipal securities dealer receipts of such disclosure.

Each broker, dealer, and municipal securities dealer subject to the provisions of sections (d), (e) or (f) of this rule shall maintain a copy of the written disclosures, acknowledgments and consents required by these sections in a separate file and in accordance with the provisions of MSRB Rule G-9.

If a broker, dealer, or municipal securities dealer acquires new issue municipal securities or participates in a syndicate or other account that acquires new issue municipal securities in accordance with section (d) of this rule, such broker, dealer, or municipal securities dealer shall disclose the existence of the financial advisory relationship in writing to each customer who purchases such securities from such broker, dealer, or municipal securities dealer, at or before the completion of the transaction with the customer.

Nothing contained in this rule shall be deemed to supersede any more restrictive provision of state or local law applicable to the activities of financial advisors.

Procedures and Documentation

Our Municipal Securities Principal will determine instances where a financial advisory relationship, according to MSRB Rule G-23, is deemed to exist and maintain a log of all such relationships to ensure our full compliance with the requirements under Rule G-23.

Our CCO will ensure that we undertake a review of all activities in which we have engaged where we acted in a financial advisory capacity, or offered consultant services to, or on behalf of, an issuer with respect to a new issue or issues of municipal securities, including advice on the structure, timing, terms

and other similar matters concerning such issue or issues, for a fee or other compensation or in expectation of such compensation for the rendering of such services. Such review will be undertaken to ensure that all G-23 compensation, written agreements and disclosure requirements have been met and documented. We will maintain documentation of such review, including dates, names of individuals conducting the review, findings, etc.

Improper Use of Assets (MSRB Rule G-25)

Policy Requirements

MSRB Rule G-25.

a. No broker, dealer or municipal securities dealer shall make improper use of municipal securities or funds held on behalf of another person.
b. No broker, dealer or municipal securities dealer shall guarantee or offer to guarantee a customer against loss in:
    i. an account carried or introduced by a broker, dealer or municipal securities dealer in which municipal securities are held or for which municipal securities are purchased, sold or exchanged, or
    ii. a transaction in municipal securities with or for a customer.

    Put options and repurchase agreements shall not be deemed to be guaranties against loss if their terms are provided in writing to the customer with or on the confirmation of the transaction and recorded in accordance with rule G-8(a)(v).

c. No broker, dealer or municipal securities dealer shall share, directly or indirectly, in the profits or losses of:
    i. an account of a customer carried or introduced by a broker, dealer or municipal securities dealer in which municipal securities are held or for which municipal securities are purchased or sold, or
    ii. a transaction in municipal securities with or for a customer.

Nothing herein contained shall be construed to prohibit an associated person of a broker, dealer or municipal securities dealer from participating in his or her private capacity in an investment partnership or joint account, provided that such participation is solely in direct proportion to the financial contribution made by such person to the partnership or account.

Procedures and Documentation

Our Municipal Securities Principal will review all activities to ensure that no individual affiliated with this broker-dealer makes any prohibited guarantees and that no sharing in customer profits or losses is occurring.

Annually, our CCO will undertake a review of all activities, including municipal securities, to determine that prohibited guarantees were not made, and that we have not entered into any inappropriate sharing in customer profit or loss arrangements.

Markups/Markdowns

In January 2020, OCIE released its 2020 Examination Priorities, where it stated that it will examine broker-dealer trading activity in municipal and corporate bonds for compliance with best execution obligations; fairness of pricing, mark-ups and mark-downs, and commissions; and confirmation disclosure requirements, including retail disclosures relating to mark-ups and mark-downs.

Policy Requirements

Agency Transactions

Broker-dealers are prohibited from purchasing or selling municipal securities as agent for a customer for a commission or service charge in excess of a fair and reasonable amount, taking into consideration all relevant factors, including the availability of the securities involved in the transaction; the expense of executing or filling the customer's order; the value of the services rendered by the broker, dealer or municipal securities dealer; and the amount of any other compensation received or to be received by the broker, dealer or municipal securities dealer in connection with the transaction.

Principal Transactions

Broker-dealers are prohibited from purchasing or selling securities for their own accounts from a customer or sell municipal securities for their own accounts to a customer except at an aggregate price, including any markdown or markup, that is fair and reasonable, taking into consideration all relevant factors, including the best judgment of the broker, dealer or municipal securities dealer about the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction; the expense involved in effecting the transaction; the fact that the broker, dealer or municipal securities dealer is entitled to a profit; and the total dollar amount of the transaction.

Markup Disclosure Requirements

The mark-up disclosure requirements under Rule G-15 will require a dealer to disclose its mark-up (or mark-down) on a transaction where the dealer buys or sells a municipal security on a principal basis from (or to) a non-institutional customer and engages in one or more offsetting principal trade(s) on the same trading day in the same security, where the size of the dealer's offsetting principal trade(s), in the aggregate, equals or exceeds the size of the customer trade.

MSRB Rule G-30 requires supplementary material (paragraph .06 entitled "Mark-Up Policy") to provide guidance on establishing the prevailing market price and determining mark-ups and mark-downs for principal transactions in municipal securities.

Supplementary Material .01(a) clarifies that a dealer must exercise "reasonable" diligence in establishing the market value of a security and the reasonableness of the compensation received.

Under Supplementary Material .06, the prevailing market price of a municipal security generally will be presumptively established by referring to the dealer's contemporaneous cost as incurred, or contemporaneous proceeds as obtained.

Procedures and Documentation

Our Municipal Securities Principal must ensure that we are in compliance with MSRB Rule G-15 and Rule G-30.

Our Municipal Securities Principal will review all municipal securities transactions to ensure that mark-ups are appropriately disclosed under Rule G-15 and the rationale of all markups and markdowns is appropriate and documented. Questionable markups or markdowns will be investigated, with steps taken to modify any if deemed appropriate. Our Municipal Securities Principal will maintain documentation of all such questionable transactions.

Brighton does not mark up or down securities traded for client accounts. If however, there occur instances in the future when a mark up or mark down would occur, our CCO will review an appropriate sample of all municipal securities transactions to ensure that appropriate documentation has been made indicating the rationale for any markup or markdown and to ensure that any such markups or markdowns were all appropriate. The CCO will conduct review of the expression of mark-ups and mark-downs in client confirmations through the procedures described above for review of client confirmations generally.

New Accounts

Procedures and Documentation

Our designated Municipal Securities Principal will ensure that we are in full compliance with all applicable MSRB Rules and all FINRA rules applicable to municipal securities transactions.

In addition, our designated supervising principals are responsible for ongoing supervision of all individuals under their immediate supervision to ensure that they are aware of, and act in compliance with, all rules and regulations governing municipal securities transactions.

Any new account that intends to transact business in municipals must be reviewed and approved. If the new account belongs to a retail customer, we must provide them with our Form CRS.

Our Municipal Securities Principal will conduct a review of all new accounts transacting business in municipal securities to ensure they have been handled appropriately in terms of:

- The opening of each municipal securities account;
- Each transaction in municipal securities;
- The handling of customer complaints involving municipal securities;
- All correspondence pertaining to the solicitation or execution of transactions in municipal securities; and

- Delivering a Form CRS to prospective retail clients at the beginning of the relationship.

Written notice must be provided for accounts known to be employed by another broker-dealer or municipal securities dealers, and duplicate copies of confirms will be sent to the employers of these customers.

Annually, our Municipal Securities Principal will review all files to verify that all clients have been sent in writing or electronically the following as required by MSRB Rule G-10:

i. a statement that it is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board;
ii. the website address for the Municipal Securities Rulemaking Board; and
iii. 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.

Political Contributions (MSRB Rule G-37)

Policy Requirements

MSRB Rule G-37 generally bars municipal broker-dealers who contribute to issuer-clients from doing any negotiated business with those clients for a two year period following such contribution. Municipal finance professionals may, however, contribute up to two hundred-fifty dollars ($250) to a political candidate for whom they can vote, regardless of whether the candidate is affiliated with an issuer-client.

MSRB Rule G-38 prohibits municipal dealers from paying, directly or indirectly, any person who is not an affiliated person of the broker-dealer for a solicitation of municipal securities business on behalf of the broker-dealer.

Although municipal dealers are now prohibited from using consultants to solicit municipal securities, they may be required to file Form G-38t for a calendar quarter if one or more transitional payments to consultants remain pending or are paid during the reporting period under Rule G-38(c) for solicitation activities undertaken on, or prior to, August 29, 2005.

To define a “Municipal Financial Professional” we first need to determine who falls within the definition of “associated person.”

Associated Persons

For broker-dealers, associated persons are:

- Any partner, officer, director or branch manager, or any person occupying a similar status or performing similar functions;
- Any person directly or indirectly controlling, controlled by, or under common control with the broker or dealer; or

- Any employee of the broker or dealer, except those whose functions are solely clerical or ministerial.

For a municipal securities dealer which is a bank or a division of a department of a bank, associated persons are:

- Any person directly engaged in the management, direction, supervision, or performance of any of the municipal securities dealer's activities with respect to municipal securities; and
- Any person directly or indirectly controlling such activities or controlled by the municipal securities dealer relating to such activities.

Municipal Finance Professionals

Upon determining that an individual is an "associated person," the "Municipal Finance Professional" definition is:

1. Any associated person primarily engaged in municipal representative activities pursuant to MSRB Rule G-3(a)(1) including, underwriting, trading, sales, financial advisory and consultant services, research or investment advice on municipal securities, or any other activities which involve communication, directly or indirectly, with public investors relating to the activities listed herein, provided, however, that sales activities with natural persons shall not be considered to be municipal securities representative activities for purposes of Rule G-37 (g)(iv);
2. Any associated person who solicits "municipal securities business" as defined in Rule G-37, which includes negotiated underwriting activities, private placement activities, negotiated remarketing services, financial advisory and consultant services;
3. Any associated person who is both (a) a municipal securities principal or a municipal securities sales principal and (b) a supervisor of any persons described in 1 or 2 above;
4. Any associated person who is a supervisor of the associated persons described in 3 above, up through and including (i) for dealers that are not bank dealers, the CEO or similarly situated official and (ii) for bank dealers, the officer or officers designated by the bank's board of directors as responsible for the day-to-day conducts of the bank's dealer activities;
5. For broker-dealers other than bank dealers, any associated person who is a member of the executive or management committee, or similarly situated officials, if any. For bank dealers, any member of the executive or management committee of the separately identifiable department or division, if any, of the bank, as defined in Rule G-1.
6. However, if the only associated persons meeting the definition of municipal financial professionals are those described in Paragraph 5, the broker, dealer or municipal securities dealer shall be deemed to have no municipal finance professionals.

The definition of Municipal Finance Professional excludes sales activities with natural persons.

Soliciting

Even if an associated person is not "primarily engaged in municipal representative activities," he/she is considered a municipal finance professional if he or she solicits municipal securities business, as defined

in Rule G-37. Such business includes negotiated underwriting activities, private placement activities, negotiated remarketing services, financial advisory and consultant services.

“Soliciting” activities include, but are not necessarily limited to, responding to issuer Requests for Proposals, making presentations of public finance and/or municipal securities marketing capabilities to issuer officials, and engaging in other activities calculated to appeal to issuer officials for municipal securities business, or which effectively do so.

MSRB Notice 2003-41 (October 30, 2003) offers comprehensive Q&As regarding all the issues surrounding G-37 which our Municipal Securities Principal and our CCO have available to address any concerns they may have in appropriately overseeing and complying with all G-37 requirements.

Filing Requirements

Form G-37 must be submitted to the MSRB if any one of the following occurred:

1. Reportable political contributions were made during the reporting period, unless a Form G-37x has previously been submitted and the submission remains effective
2. Municipal securities business [as defined in G-37(g)(xii)] was engaged in during the reporting period. The term "municipal securities business" means:
    - The purchase of a primary offering [as defined in rule A-13(d)] of municipal securities from the issuer on other than a competitive bid basis (i.e. negotiated underwriting); or
    - The offer or sale of a primary offering of municipal securities on behalf of any issuer (i.e., private placement); or
    - The provision of financial advisory or consultant services to or on behalf of an issuer with respect to a primary offering of municipal securities on other than a competitive bid basis; or
    - The provision of remarketing agent services to or on behalf of an issuer with respect to a primary offering of municipal securities on other than a competitive bid basis.

There is no need to file Form G-37 only if none of the above have occurred. For exemptions regarding MSRB Rule G-37(b), refer to NASD Notice to Members 95-103.

Filing Deadlines

Form G-37 and Form G-38t must be submitted to the MSRB by the last day of the month following the end of each calendar quarter (January 31, April 30, July 31 and October 31 of each year).

G-37 Exemption

If we are exempt from G-37 filing requirements (a determination made and documented in the files by our Municipal Securities Principal), no further action regarding G-37 filings is required once we have filed a G-37x unless the business changes and the exemption is no longer applicable. There is no fixed timeframe for submission of Form G-37x. The Form must be submitted no later than the G-37 submission deadline for the quarter during which such determination is made.

Pursuant to Rule G-37(e)(ii)(A)(2), we are not required to submit a Form G-37 for a calendar quarter if both of the following are true:

- The dealer has submitted a Form G-37x to the MSRB on, or prior to, the deadline for submission of Form G-37 for that calendar quarter
- The Form G-37x submission remains in effect as of the end of that calendar quarter

However, as described further herein, even if Form G-37x is in effect, a dealer is required to submit a Form G-37/G-38 for any calendar quarter in which the dealer uses a consultant.

G-37x Filings

We may submit Form G-37X to the MSRB if we did not engage in municipal securities business during the eight full consecutive calendar quarters ending immediately on, or prior to, the date of the submission.

A Form G-37x submission remains effective for so long as the firm does not engage in municipal securities business; thus, there is no need to submit any additional Form G-37x to the MSRB unless the original Form G-37x submission has become ineffective and the dealer subsequently re-qualifies to file Form G-37x.

Lapse of Effectiveness of Form G-37x Submission: A Form G-37x submitted to the MSRB becomes ineffective when the firm becomes engaged in municipal securities business. We would be obligated to submit Form G-37 to the MSRB beginning with the report for the calendar quarter in which such municipal securities business occurred.

Pursuant to MSRB Rule G-37(e)(iii), the first Form G-37 submitted after the lapse of Form G-37x must include information regarding any contributions to issuer officials or payments to state or local political parties that would have been reportable, but had not been reported, on Form G-37 during the two-year period preceding such calendar quarter.

The existence of political contributions to issuer officials or payments to political parties that would otherwise be reportable on Form G-37 does not result in the lapse of effectiveness of a Form G-37x. However, as noted above, such contributions and payments may become reportable upon the lapse of effectiveness of Form G-37x if made less than two years prior to such lapse.

Form Submissions

Forms G-37 and G-37x must be submitted to the MSRB electronically through the EMMA Dataport. Form G-38t may be submitted to the MSRB in paper form only.

Electronic Submission

Dealers who want to submit Forms G-37 or G-37x electronically do so via the EMMA Dataport.

Electronic submissions may be made to the eG-37 System through the MSRB's secured, password-protected Internet website. Each dealer must submit an e-mail address for purposes of receiving electronic records of submissions through the EMMA Dataport.

Form G-37 and Form G-37x submitted electronically may be completed using an on-line data-entry form. The data-entry form for Form G-37 permits certain items of information to be incorporated into the form by means of file uploading. In addition, a dealer is permitted to upload its entire Form G-37 rather than completing the form by means of data-entry. All documents up-loaded through the EMMA Dataport must be in portable document format (PDF).

Paper Submission

Paper submissions of Form G-38t must be sent to the MSRB by certified or registered mail, or some other equally prompt means that provides a record of sending. Rule G-38 requires two copies of completed Form G-38t be sent to the MSRB. At least one copy of Form G38-t submitted on paper must contain an original signature.

Submissions by fax will not be accepted.

Viewing Forms Submitted to MSRB

The Forms G-37, Forms G-37x and G-38t submitted to the MSRB may be viewed at the MSRB's website (www.msrb.org). In addition, the forms are available for review and photocopying at the MSRB's Public Access Facility in Alexandria, Virginia.

Procedures and Documentation

Our Municipal Securities Principal ensures that we are in full compliance at all times with MSRB Rules G-37 and G-38, including the requirement to disclose contributions to bond ballot campaigns (other than a contribution made by a municipal financial professional or a non-MFP officer to a bond ballot campaign for a ballot initiative with respect to which such person is entitled to vote if all contributions by such persons to such bond ballot campaign, in total, do not exceed $250 per ballot initiative) made by:

- The broker, dealer or municipal securities dealer;
- Each municipal finance professional;
- Each non-MFP executive officer; and
- Each political action committee controlled by the broker, dealer or municipal securities dealer or by any municipal finance professional.

Our Municipal Securities Principal will maintain a current list of all Municipal Finance Professionals to ensure that any political contributions (including contributions made to bond ballot campaigns) required to be reported are disclosed. On an annual basis, all municipal finance professionals will be reminded of their requirement to disclose all political contributions. We will maintain copies of all such reminders and responses in the files, along with copies of all G-37 filings.

MSRB Rule G-37 Books and Records will be carefully maintained and, if deemed necessary, further steps will be taken by checking state and local records of campaign contributions to determine that individuals have reported what they should report.

For any period during which we have a G-37x on file with the MSRB, our Municipal Securities Principal will review all municipal activities on a quarterly basis to determine if the exemption has lapsed.

Our Municipal Securities Principal will review all G-37 and G-38t filings on an annual basis to determine whether we have complied.

MSRB Rule G-8 Recordkeeping Requirements

MSRB Rule G-8 on books and records requires a very specific list of items to be maintained regarding MSRB Rule G-37.

Our Municipal Securities Principal is responsible for making certain that all records required under MSRB G-8 are maintained in a complete and current manner.

Any payments/contributions, direct or indirect, to officials of an issuer and payments, direct or indirect, made to political parties of states and political subdivisions, by the broker, dealer or municipal securities dealer and each political action committee controlled by the broker, dealer or municipal securities dealer (or by any municipal finance professional or such broker, dealer or municipal securities dealer) must be disclosed to Senior Management. Such disclosure must indicate:

- The identity of the contributors;
- The names and titles (including any city/county/state or other political subdivision) of the recipients of such contributions and payments; and
- The amounts and dates of such contributions and payments.

Any contributions, direct or indirect, to officials of an issuer made by each municipal financial professional and executive officer must immediately be disclosed to the designated Municipal Securities Principal, our CCO or Senior Management. Such disclosure must indicate:

- The names, titles, city/county and state of residence of contributors;
- The names and titles of the recipients of such contributions, including any city/county/state or other political subdivision; and
- The amounts and dates of such contributions.

Such disclosure does not have to be made for any contribution to officials of an issuer for whom the contributor is entitled to vote if the contributions by such individual, in total, are not more than two hundred fifty dollars ($250) to any official of an issuer, per election.

Any payments, direct or indirect, to political parties of states and political subdivisions made by any municipal finance professionals and executive officers for the current year and for each of the previous two calendar years, must be disclosed to our MSRB Principal or other appropriate management-level principal of the firm. Such information must indicate:

- The names, titles, city/county and state of residence of contributors;
- The names and titles, including any city/county/state or other political subdivision, of the recipients of such payments; and
- The amounts and dates of such payments, provided, however, that such records need not reflect those payments made by any municipal finance professional or executive officer to a political party of a state or political subdivision in which such persons are entitled to vote if the payments by such person, in total, are not more than two hundred fifty dollars ($250) per political party, per year.

Our Municipal Securities Principal will maintain (under MSRB Rule G-37 and G-8 requirements) a list of all de minimis exceptions from the bond ballot campaign contributions which need to be reported on G-37, i.e. those contributions made by an MFP or non-MFP executive officer to a bond ballot campaign for a ballot initiative with respect to which such person is entitled to vote if all contributions by such person to such bond ballot campaign, in total, do not exceed $250 per ballot initiative.

MSRB Rule G-9 requires that all records maintained concerning political contributions and prohibitions on municipal securities business and solicitation of municipal securities business pursuant to Rules G-37 and G-38 be preserved for at least six years; however, copies of Forms G-37x must be preserved for the period during which such Forms G-37x are effective and for at least six years following the end of such effectiveness.

At least annually, our Municipal Securities Principal will ensure that we undertake a review to confirm that we are maintaining appropriate books and records relating to MSRB Rules G-37 and G38, as required by MSRB Rule G-8.

Professional Qualification Requirements (MSRB Rule G-3)

Policy Requirements

The MSRB's Professional Qualification Program sets standards of competency for associated persons of municipal securities brokers, dealers, municipal securities dealers (collectively dealers) and municipal advisors. Professional qualification requirements foster compliance with MSRB rules and other regulatory requirements through required examinations and continuing education.

Municipal Securities Principals and Representatives

The MSRB imposes qualification requirements on certain associated persons of dealers based on their activities.

- *Municipal securities representatives (Series 52) perform fundamental activities such as selling, trading and underwriting municipal securities.*
- *Municipal securities sales limited representatives (Series 7) perform activities limited exclusively to sales to and purchases from customers of municipal securities.*

- *Limited representative – investment company and variable contracts products (Series 6) performs activities with respect to municipal securities that are limited exclusively to sales to and purchases from customers of municipal fund securities.*
- *Municipal securities principals (Series 53) manage, direct or supervise the municipal securities activities of a securities firm or bank dealer.*
- *Municipal fund securities limited principals (Series 51) manage, direct or supervise municipal securities activities that are limited exclusively to municipal fund securities.*
- *Municipal securities sales principals (Series 9/10) are associated with securities firms and perform supervisory activities with respect to municipal securities that are limited to sales to and purchases from customers of municipal securities.*
- *Municipal advisor principals (Series 54) engage in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.*

Municipal Advisor Representatives and Principals

The MSRB imposes qualification requirements on certain associated persons of municipal advisors based on their activities.

- Municipal advisor representatives engage in municipal advisory activities, as defined in Section 15B(e)(4)(A)(i) and (ii) of the Securities Exchange Act of 1934, on the municipal advisor's behalf.
- Municipal advisor principals directly engage in the management, direction or supervision of the municipal advisory activities of the municipal advisor and its associated persons.

Qualification Requirements

Associated persons of dealers and municipal advisors engaged in such functions must satisfy the professional qualification requirements as outlined in MSRB Rule G-3.

The MSRB provides content outlines for its qualification examinations.

- Series 50 – Municipal Advisor Representative Examination
- Series 51 - Municipal Fund Securities Limited Principal Qualification Examination
- Series 52 - Municipal Securities Representative Qualification Examination
- Series 53 - Municipal Securities Principal Qualification Examination

FINRA administers qualification examinations for the other categories of municipal securities professionals.

- Series 6 – The Investment Company Products/Variable Contracts Limited Representative Examination
- Series 7 – The General Securities Representative Examination qualifies an individual as a municipal securities sales limited representative.
- Series 9/10 – The General Securities Sales Supervisor's Examination qualifies a municipal securities sales supervisor.
- SIE – The Securities Industry Essentials examination as a prerequisite to a more specialized Series 52 knowledge examination in order to qualify as a municipal securities representative.

In Regulatory Notice 2018-11, the MSRB stated its intended plan to revise the Series 52 into a specialized knowledge examination and recognize FINRA's Securities Industry Essentials (SIE) Examination as a prerequisite for the Series 52 examination.

Effective beginning October 1, 2018, the amendments to Rule G-3, among other things: (i) require the SIE examination as a prerequisite for the Series 52 examination; (ii) restructure the Series 52 examination into a specialized knowledge examination; (iii) provide for permissive qualifications to be made and maintained for associated persons; and (iv) afford relief to individuals from having to requalify by examination by recognizing the financial services affiliates (FSA) waiver program.

Further, the amendments to Rule G-3(a)(ii) require an individual to pass both the SIE exam and the revised Series 52 exam in order to become qualified as a municipal securities representative.

Effective beginning December 20, 2018, the amendments to Rule G-3: (i) require municipal advisor principals to pass the new Municipal Advisor Principal Qualification Examination ("Series 54 examination") to become appropriately qualified as a municipal advisor principal; (ii) require individuals who cease to be associated with a municipal advisor for two or more years, at any time after having been qualified as a municipal advisor principal, to requalify by examination unless a waiver is granted; (iii) add the Series 54 examination to the list of qualification examinations for which an individual can seek a waiver; and (iv) provide that municipal advisor representatives may function as a principal for 120 calendar days without being qualified with the Series 54 examination.

The MSRB conducted a pilot for the Series 54 examination from February 2019 through June 2019. In the fall of 2019, after the pilot period concludes and the passing score is determined, the MSRB will announce in an MSRB Notice the date the permanent Series 54 examination will become available and the score required to pass the Series 54 examination. Once the permanent Series 54 examination becomes available, persons who engage in the management, direction or supervision of the municipal advisory activities of a municipal advisor and its associated persons will have a one-year grace period to become appropriately qualified as a municipal advisor principal.

On December 2, 2020, the MSRB filed a proposed rule change with the SEC, effective immediately, to provide additional regulatory relief on a temporary basis to broker-dealers in light of operational difficulties caused by COVID-19.

The proposed rule change amends Supplementary Material .09, Temporary Relief for Municipal Advisor Principals, of Rule G-3 to further extend the date by which a person acting in the capacity of a municipal advisor principal is required to become duly qualified with the Series 54 examination to November 12, 2021.

Procedures and Documentation

Minimally on an annual basis, our CCO will require that all individuals registered as MSRB principals review the registration category of those individuals under their supervision to ensure that all are appropriately licensed, submitting written documentation to that effect.

In addition, our CCO will also, on an annual basis, review the license categories of all MSRB principals to ensure their appropriate registrations, maintaining documentation of such reviews and any actions taken.

Real-Time Transaction Reporting System (MSRB Rule G-14)

Policy Requirements

The RTRS User's Manual located at http://www.msrb.org/msrb1/RTRS/RTRSWeb-Users-Manual.pdf provides the specifications for real-time reporting of municipal securities transactions, the RTRS Web User Manual, Testing Procedures, guidance on how to report specific types of transactions and other information relevant to transaction reporting under Rule G-14.

Definitions

- RTRS, or Real-time Transaction Reporting System, is a facility operated by the MSRB. RTRS receives municipal securities transaction reports submitted by dealers pursuant to Rule G-14, disseminates price and volume information in real time for transparency purposes and otherwise processes information pursuant to Rule G-14.
- The RTRS Business Day is 7:30 a.m. to 6:30 p.m., Eastern Time, Monday through Friday, on each business day as defined in MSRB Rule G-12(b)(i)(B).
- Time of trade is the time at which a contract is formed for a sale or purchase of municipal securities at a set quantity and set price.
- Submitter means a dealer, or service bureau acting on behalf of a dealer, that has been authorized to interface with RTRS for the purposes of entering transaction data into the system.
- Interdealer Transaction Eligible for Automated Comparison by a Clearing Agency Registered with the Commission is defined in MSRB Rule G-12(f)(iv).
- Municipal Fund Securities is defined in MSRB Rule D-12.

The following transactions are not required to be reported under Rule G-14.

- Transactions in securities without assigned CUSIP numbers
- Transactions in municipal fund securities
- Interdealer transactions for principal movement of securities between dealers that are not interdealer transactions eligible for comparison in a clearing agency registered with the SEC

Procedures and Documentation

Our Municipal Securities Principal must ensure that we comply fully with MSRB Rule G-14, and that all reporting is done promptly, accurately and completely.

Our Municipal Securities Principal will do the following:

- Ensure that we report required information about each purchase and sale transaction effected in municipal securities to the Real-time Transaction Reporting System (RTRS) in the manner prescribed by Rule G-14 RTRS Procedures and the RTRS User's Manual.

- Ensure that, if at any time we employ an agent for submitting transaction information, we are fully aware that timely and accurate submissions are made.
- Maintain our unique broker symbol, received from FINRA, which is utilized to identify our transactions for reporting purposes.
- Provide to the MSRB on Form RTRS all information necessary to ensure that our trade reports can be processed correctly (i.e. the way transactions will be reported, the broker symbol used, the identity of and information on any intermediary to be used as a Submitter, information on personnel that can be contacted if there are problems in RTRS submissions, and information necessary for systems testing with RTRS).
- Ensure that information provided on Form RTRS is current by notifying the MSRB when contact or other information provided on the form changes.
- Ensure that transactions effected with a time-of-trade during the hours of the RTRS business day are reported within 15 minutes of time of trade to an RTRS Portal, except in certain situations where end-of-day or within-three-hours is the required reporting time, as listed in Rule G-14, RTRS Procedures (a)(ii).
- Ensure that transactions effected with a time of trade outside the hours of the RTRS business day are reported no later than 15 minutes after the beginning of the next RTRS Business Day.
- Ensure that transaction data not submitted in a timely and accurate manner in accordance with MSRB G-14 procedures is submitted or corrected as soon as possible.
- Review information on the status of trade reports in RTRS (available through the Message Portal, through the RTRS Web Portal, or via electronic mail) to promptly address any problem or potential problem with reported trade data, addressing the matter promptly to ensure that the information being disseminated by RTRS is as accurate and timely as possible.
- Understand all reporting requirement for specific types of transactions, and act accordingly.
- Maintain appropriate records documenting how we have complied with all the above actions, including dates, names of individuals undertaking the action, remedial actions taken, etc.

Destination Codes

Our Municipal Securities Principal will ensure that all destination codes are accurately reported, including destination codes entered by us, as well as codes provided by the other side of the trade (i.e., another broker-dealer). In addition, our Municipal Securities Principal is responsible for detecting, and appropriately reporting, errors regarding incorrect codes made by either this firm or another.

Secondary Market Sales

Policy Requirements

From FINRA Regulatory Notice 10-41, *"Brokers, dealers and municipal securities dealers (dealers) must fully understand the municipal securities they sell to meet their disclosure, suitability and pricing obligations under the rules of the Municipal Securities Rulemaking Board (MSRB) and federal securities laws. These obligations are not limited to firms involved in primary offerings.*

Dealers must also obtain, analyze and disclose all material facts about secondary market transactions that are known to the dealer, or that are reasonably accessible to the market through established

industry sources, including among other things, official statements, continuing disclosures, trade data and other information made available through the MSRB's Electronic Municipal Market Access system (EMMA).

Firms may also have a duty to obtain and disclose information that is not available through EMMA, if it is material and available through other public sources. The public availability of material information, through EMMA or otherwise, does not relieve a firm of its duty to disclose that information.

Firms must also have reasonable grounds for determining that a recommendation is suitable based on information available from the issuer of the security or otherwise. Firms must use this information to determine the prevailing market price of a security as the basis for establishing a fair price in a transaction with a customer. To meet these requirements, firms must perform an independent analysis of the securities they sell, and may not rely solely on a security's credit rating.

Continuing disclosures made by issuers to the MSRB via EMMA are part of the information that dealers must obtain, disclose and consider in meeting their regulatory obligations. The Securities and Exchange Commission (SEC) has recently approved amendments to Securities Exchange Act Rule 15c2-12, governing continuing disclosures."

The MSRB has interpreted its Rule G-17 to require a dealer to disclose to its customer, at or prior to the sale, all material facts about the transaction known by the dealer, as well as material facts about the security that are reasonably accessible to the market. This includes the obligation to give customers a complete description of the security, including a description of the features that likely would be considered significant by a reasonable investor and facts that are material to assessing the potential risks of the investment.

Credit Ratings

To meet their obligations under MSRB Rules G-17 and G-19, firms must analyze and disclose to customers the risks associated with the securities they sell, including, but not limited to, the security's credit risk. A credit rating is a third-party opinion of the credit quality of a municipal security. While the MSRB generally considers credit ratings and rating changes to be material information for purposes of disclosure, suitability and pricing, they are only one factor to be considered, and dealers should not solely rely on credit ratings as a substitute for their own assessment of a security's credit risk.

Other Material Information

In addition to a security's credit quality, firms must obtain, analyze and disclose other material information about a security, including but not limited to whether the security may be redeemed prior to maturity in-whole, in-part or in extraordinary circumstances; whether the security has non-standard features that may affect price or yield calculations; whether the security was issued with original issue discount or has other features that would affect its tax status; and other key features likely to be considered significant by a reasonable investor. For example, for variable rate demand obligations,

auction rate securities or other securities for which interest payments may fluctuate, firms should explain to customers the basis on which periodic interest rate resets are determined.

Procedures and Documentation

Our CCO must ensure that our municipal securities activities are being adequately supervised to ensure compliance with all MSRB rules, the Exchange Act and the rules there under.

Our MSRB Principal must ensure the adherence of all muni transactions to MSRB Rule G-17, which provides that, in the conduct of its municipal securities activities, each dealer must deal fairly with all persons and may not engage in any deceptive, dishonest or unfair practice.

MSRB Rule G-27 requires that our procedures include regular and frequent review and approval by a designated principal of customer accounts introduced or carried by the dealer to ensure that transactions are in accordance with all applicable rules and to detect and prevent irregularities and abuses. Although the rule does not establish a specific procedure for ensuring compliance with the requirement to provide disclosures to customers pursuant to MSRB Rule G-17, our CCO will review accounts and transactions to ensure that specific processes are being utilized to document that such disclosures have been made.

Our MSRB Principal must ensure that such disclosures are made at the "time of trade," which the MSRB defines as at or before the point at which the investor and the dealer agree to make the trade. This is applicable regardless of whether the transaction was recommended.

Section 529 College Plan Customer Protection Obligations

Policy Requirements

The MSRB has interpreted Rule G-17 to *"require a broker-dealer, in connection with any transaction in municipal securities, to disclose to its customer, at or prior to the sale of the securities ("the time of trade"), all material facts about the transaction known by the broker/dealer, as well as material facts about the security that are reasonably accessible to the market." The MRSB has stated that "this duty applies to any transaction in a 529 college savings plan interest regardless of whether the transaction has been recommended by the broker-dealer."*

Procedures and Documentation

Our Municipal Securities Principal must ensure that each individual engaged in 529 transactions receives a copy of the MSRB Interpretation available online at http://msrb.org/Rules-and-Interpretations/MSRB-Rules/General/Rule-G-17.aspx.

Reviews of 529 transactions will be undertaken at least annually by our CCO or by a specifically designated individual. Specifically, these reviews will ensure that we adhere to the requirements outlined in the MSRB's August 7, 2006, Interpretation.

Section 529 College Savings Plans

Policy Requirements

Because Section 529 College Savings Plans are municipal security funds, even broker-dealers dealing solely in 529 Plans must be Municipal Securities Rulemaking Board (MSRB) members under MSRB Rule A-12. While a large majority of MSRB rules are not applicable to firms dealing solely with 529 Plans, such firms must adhere to certain specific MSRB regulatory responsibilities and requirements.

Designation of Appropriate Municipal Securities Principal (Rules G-2/G-3)

An individual with EITHER a Series 24 license, OR with a Series 26 license **AND** a Series 51, OR with a Series 53 must be designated as the individual to supervise all activities relative to all Section 529 activities. Registered representatives dealing with 529 Plan transactions must be minimally licensed with a Series 6.

Our Municipal Securities Principal must appoint an appropriately trained individual to act on his or her behalf should the Municipal Securities Principal be unavailable.

MSRB Rule G-17

In the conduct of its municipal securities activities, each broker, dealer and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest or unfair practice. Our Municipal Securities Principal will ensure strict compliance with both the spirit and letter of the law under MSRB Rule G-17 by all individuals engaged in the sale of 529 Plans.

Suitability of Recommendations and Transactions; Discretionary Accounts (MSRB Rule G-19)

Account Information

Each broker, dealer and municipal securities dealer shall obtain at or before the completion of a transaction in municipal securities with or for the account of a customer, a record of the information required by Rule G-8(a)(xi). (See further below, MSRB Rule G-8 is satisfied by a broker-dealer adhering to Exchange Act Rule 17a-3.)

Discretionary Accounts

No discretionary transactions in Section 529 municipal fund securities are permitted without written client approval and a principal sign-off on a discretionary account.

Non-institutional Accounts

Prior to recommending a municipal security transaction to a non-institutional account, we must make reasonable efforts to obtain the following information (in addition to information required under FINRA Rule 2111):

- The customer's financial status
- The customer's tax status
- The customer's investment objectives

- Such other information used or considered to be reasonable and necessary by such broker, dealer or municipal securities dealer in making recommendations to the customer

The term institutional account, for the purposes of this section, shall have the same meaning as in MSRB Rule G-8(a)(xi).

Suitability of Recommendations

FINRA and MSRB rules require that a firm establish and maintain a supervisory system that is reasonably designed to achieve compliance with applicable laws and regulations, including suitability rules.

In recommending any municipal security transaction to a customer, we must have reasonable grounds for such recommendation:

- Based upon information available from the issuer of the security, or otherwise.
- Based upon the facts disclosed by such customer or otherwise known about such customer for believing that the recommendation is suitable. FINRA Rule 2111 states the specific requirements of information required to be obtained, and considered, when recommending transactions of any sort.

In addition, the core obligations required under Regulation Best Interest (Reg BI) must be met, including:

- Providing certain prescribed disclosures before or at the time of a recommendation regarding the investment and the relationship between the retail customer and the broker-dealer.
- Exercising reasonable diligence, care, and skill in making the recommendation. This mirrors FINRA's Suitability Rule, with the caveat that under Reg BI, in addition to suitability, the obligation also considers whether the broker-dealer's standards avoid placing the financial interests of the broker-dealer ahead of the customer.

We will also:

- keep records of 529 plan transactions and review those transactions for suitability;
- capture information relevant to the suitability determination, including the age of the beneficiary and the number of years until the funds are needed to pay for the beneficiary's qualified education expenses;
- create a process to review 529 transactions for suitability;
- provide training and guidance to registered representatives regarding 529 share classes and the factors to consider, such as beneficiary age;
- require that appropriate supervisory personnel review share class suitability and obtain the information necessary to do so; and
- check for conducted reviews for share class suitability on a regular basis.

Customer Account Review Procedures

Our Municipal Securities Principal, and any individuals designated to undertake 529 customer account activity reviews, will review all such transactions to ensure that they comply with MSRB Rule G-8 and Exchange Act Rule 17a-3.

MSRB Rule G-8 and G-9

Because our municipal securities activity is limited to Section 529s, we are in compliance with our recordkeeping obligations under Rule G-8 if we remain in compliance with the SEC's recordkeeping rule, Exchange Act Rule 17a-3.

Our Municipal Securities Principal will ensure our compliance with Rules G-8 and G-9 which call for books and records preservation, by verifying that the firm is in full compliance with Exchange Act Rules 17a-3 and 17a-4.

MSRB Rule G-10 Customer Complaints

Our Municipal Securities Principal must make certain, in accordance with MSRB Rule G-10, that once every calendar year, provide in writing (which may be electronic) to each customer:

- A statement that the firm is registered with the SEC and the MSRB
- The website address for the MSRB; and
- A statement to the customer that an investor brochure is available on the website of the MSRB that describes the protection that may be provided by the MSRB rules and how to file a complaint with an appropriate regulatory authority.

MSRB Rule G-14

MSRB Rule G-14 states that *"a transaction in a municipal fund security"* is not required to be reported under Rule G-14 regarding Municipal Securities Transaction Reporting Requirements. Therefore, broker-dealers limiting their municipal securities transactions to Section 529s (i.e., municipal fund securities) have no reporting requirements under MSRB Rule G-14.

MSRB Rule G-16

At least once every two years, our Municipal Securities Principal will ensure that we adhere to all applicable MSRB rules, maintaining documentation of the review with all findings, including any necessary corrective measures taken, if applicable. We will also document and maintain the testing methods for ensuring compliance and all other procedures utilized to determine that we are adhering to all compliance rules surrounding 529 Plans as part of this written record.

MSRB Rule G-37 Exemption

Rule G-37 requires broker-dealers that engage in municipal securities business to report quarterly filings. Rule G-37 defines municipal securities business as *"(1) negotiated underwriting; (2) private placement; (3) financial advisor to an issuer and (4) remarketing agent."* As we are not engaged in any of the activities that define municipal securities business, we are therefore exempt from the requirements under Rule G-37 and have filed a Form G-37x with the MSRB.

Form G-37x Required Form Filing

Based on the foregoing definition and because this firm does not deal with any municipal security issuers, engages no consultants (under MSRB Rule G-38) and has no municipal finance professionals (based on the MSRB's definition of such), we have determined that we are exempt from G-37 filing requirements and have therefore filed a G-37x Form with the MSRB.

Form G-37x does not require re-filing. The initial filing remains in effect for as long as we continue to qualify for the exemption. Our Municipal Securities Principal is responsible for ensuring that we adhere to the G-37 exemption. If for any reason we are unable to maintain our G-37 exemption, our Municipal Securities Principal will recall the exemption filing from the MSRB and immediately put into place procedures for filing the requisite G-37 quarterly reports.

MSRB Rule A-14 Annual Renewal Fees

We are required to maintain membership in the MSRB, and our Municipal Securities Principal must ensure that such membership is kept current.

MSRB sends out renewal invoices to its members toward the end of September or early in October of every year. This invoice is required to be returned, with the $200 annual membership fee, no later than October 31 of each year.

Our Municipal Securities Principal must contact the MSRB to request an invoice if one has not been received in sufficient time for the payment to meet the October 31 deadline.

MSRB Rule G-21 Section 529 Advertisements

Municipal Securities Rulemaking Board requirements for 529 savings program advertisements are as follows:

- An ad with historical data must disclose that past performance is not indicative of future performance.
- An ad must clearly identify the issuer (e.g., the state), while not implying that the issuer will guarantee investments against losses unless it has, in fact, provided such a guarantee.
- An ad that describes Program services must clearly identify the service providers.
- An ad for a Program with a multiclass structure must disclose the existence of all available classes.
- An ad that discloses state or federal tax benefits must also disclose limitations on those benefits. For example, an advertisement that includes statements regarding state tax exemption must make clear that the availability of such exemption may be limited based on residency, income or other factors. MSRB further provides, in a May 14, 2002, Interpretive Guidance Memo, that certain disclosures regarding the availability of favorable state tax treatment must be disclosed by dealers, if not in their advertisements, in other documents.

MSRB G-30 Agency Transactions/Compensation

We are prohibited from purchasing or selling municipal securities as agent for a customer for a commission or service charge more than a fair and reasonable amount.

MSRB Rule G-32 Customer Disclosure Requirements

We are prohibited from selling any new-issue municipal securities to a customer without delivering to the customer, no later than the settlement date of the transaction, the following:

i. a copy of the official statement in final form prepared by or on behalf of the issuer or, if an official statement in final form is not being prepared by or on behalf of the issuer, a written notice to that effect together with a copy of an official statement in preliminary form, if any; provided, however, that:
    A. if a customer who participates in a periodic municipal fund security plan or a non-periodic municipal fund security program has previously received a copy of the official statement in connection with the purchase of municipal fund securities under such plan or program, a broker, dealer or municipal securities dealer that sells additional shares or units of the municipal fund securities under such plan or program to the customer if such broker, dealer or municipal securities dealer sends to the customer a copy of any new, supplemented, amended or "stickered" official statement, by first class mail or other equally prompt means, promptly upon receipt thereof; provided that, if the broker, dealer or municipal securities dealer sends a supplement, amendment or sticker without including the remaining portions of the official statement, such broker, dealer or municipal securities dealer includes a written statement describing which documents constitute the complete official statement and stating that the complete official statement is available upon request.

MSRB Rule A-12 Electronic Mail Contacts

Our Municipal Securities Principal must ensure that we appoint a primary electronic mail contact to serve as the official contact person for purposes of electronic mail communication between the MSRB and us. This individual contact person must be a registered municipal securities principal (i.e., either a Series 51 or Series 53 qualified individual).

We must submit to the MSRB by mail a completed Form A-12, that includes:

- The name of this broker-dealer
- Our MSRB registration number
- The name of our primary electronic mail contact name, electronic mail address, CRD # and telephone number
- If desired, the name, electronic mail address, CRD # and telephone number of an optional electronic mail contact
- The name, title, signature and telephone number of the individual who prepared the Form A-12

If appropriate, we may change the name of our electronic mail contacts or other information previously submitted by electronically submitting an amended Form G-40 to the MSRB. Our Municipal Securities Principal must ensure that the appropriate information is on file with the MSRB and that amendments are made as required. This individual is also responsible for responding to any MSRB requests for additional or amendment information.

Copies of all such filings made to the MSRB are maintained by our Municipal Securities Principal.

MSRB Rule G-6 Fidelity Bonding Requirement

The MSRB requirement that we retain a fidelity bond is satisfied by our requirement under FINRA, SEC and SIPC rules to maintain such fidelity bond for the lifetime of our FINRA membership. Therefore, broker-dealers engaged in municipal securities transactions have no separate responsibility to comply with MSRB Rule G-6.

Procedures

Our designated Municipal Securities Principal must ensure that we adhere to all applicable MSRB rules regarding 529 transactions.

Our designated supervising principals are responsible for ensuring that all the individuals under their direct supervision are aware of, and in compliance with, all rules and regulations covering 529 college savings plan transactions.

Sophisticated Municipal Market Professionals (SMMPs) Transactions

Policy Requirements

The term "sophisticated municipal market professional" or "SMMP" is defined by three essential requirements:

a. *Nature of the Customer*. The customer must be:
    1. a bank, savings and loan association, insurance company, or registered investment company;
    2. 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
    3. any other person or entity with total assets of at least $50 million.
b. *Dealer Determination of Customer Sophistication.* The dealer must have a reasonable basis to believe that the customer can evaluate investment risks and market value independently, both in general and with regard to particular transactions and investment strategies in municipal securities.
c. *Customer Affirmation.* The customer must affirmatively indicate that it:
    1. is exercising independent judgment in evaluating:
        a. the recommendations of the dealer;
        b. the quality of execution of the customer's transactions by the dealer; and
        c. the transaction price for non-recommended secondary market agency transactions as to which (i) the dealer's services have been explicitly limited to providing anonymity, communication, order matching and/or clearance functions and (ii) the dealer 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 Rule G-47(b)(i) and (ii).

As part of the reasonable basis analysis required by clause (1), the dealer should consider the amount and type of municipal securities owned or under management by the institutional customer. The MSRB notes that, while receipt by a dealer of the FINRA Rule 2111 affirmation would satisfy clause (2) of the revised SMMP definition, a written statement from an institutional customer would not satisfy the dealer's reasonable basis obligation under clause (1) of the revised SMMP definition.

MSRB Rule G-48

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:

a. *Time of Trade Disclosure.* The broker, dealer, or municipal securities dealer shall not have any obligation under Rule G-47 to ensure disclosure of material information that is reasonably accessible to the market.
b. *Transaction Pricing.* The broker, dealer, or municipal securities dealer shall not have any obligation under Rule G-30(b)(i) to take action to ensure that transactions meeting all of the following conditions are affected at fair and reasonable prices:
    i. the transactions are non-recommended secondary market agency transactions;
    ii. the broker, dealer, or municipal securities dealer's services for the transactions have been explicitly limited to providing anonymity, communication, order matching, and/or clearance functions; and
    iii. the broker, dealer, or municipal securities dealer does not exercise discretion as to how or when the transactions are executed.
c. *Suitability.* The broker, dealer, or municipal securities dealer shall not have any obligation under Rule G-19 to perform a customer-specific suitability analysis.
d. *Bona Fide Quotations.* The broker, dealer, or municipal securities dealer disseminating an SMMP's "quotation" as defined in Rule G-13, which is labeled as such, shall apply the same standards regarding quotations described in Rule G-13(b) as if such quotations were made by another broker, dealer, or municipal securities dealer.
e. *Best Execution.* The broker, dealer or municipal securities dealer does not have any obligation under Rule G-18 to use reasonable diligence to ascertain the best market for the subject security and buy or sell in that market so that the resultant price to the SMMP is as favorable as possible under prevailing market conditions.

Procedures and Documentation

Our MSRB principal, and any other principals supervising or overseeing municipal securities transactions, is responsible for determining which clients fall under the definition of "Sophisticated Municipal Market Professionals."

Annually, SMMP identified municipal securities transactions will be reviewed to ensure that they meet the SMMP definition and are therefore appropriately handled according to G-48.

Any instances where the investor does not appear to qualify as a SMMP will be investigated with the results, and follow up actions taken, if necessary, will be documented.

Suitability of Recommendations and Transactions (MSRB Rule G-19)

Procedures and Documentation

Our Municipal Securities Principal will ensure that we adhere to all suitability requirements concerning municipal securities transactions.

Going forward from June 30, 2020, Rule G-19 will not apply to recommendations subject to Regulation Best Interest.

MSRB Rule G-48(c) makes the following suitability exception when dealing with SMMPs: the broker, dealer, or municipal securities dealer shall not have any obligation under Rule G-19 to perform a customer-specific suitability analysis, provided that the recommendation is subject to Rule G-19 and not Regulation Best Interest.

FINRA and MSRB rules require that a firm establish and maintain a supervisory system that is reasonably designed to achieve compliance with applicable laws and regulations, including suitability rules.

Prior to approving a municipal securities transaction, our Municipal Securities Principal will ensure that we obtain all the information required under FINRA Rule 2111 which gives the information required to be obtained, and considered, when recommending transactions of any sort.

- Our Municipal Securities Principal will review and keep records of all recommended municipal securities transactions to ensure there are reasonable grounds for the recommendation based upon information available from the issuer of the security or otherwise. These reviews will be checked on a regular basis.
- Based upon the facts disclosed by such customer or otherwise known about such customer for believing that the recommendation is suitable.
- We will provide training and guidance to registered representatives regarding factors to consider regarding suitability. Our Municipal Securities Principal will document these trainings.

Supervision (MSRB Rule G-27)

Procedures and Documentation

On December 2, 2020, the MSRB filed a proposed rule change with the SEC, effective immediately, to provide additional regulatory relief on a temporary basis to broker-dealers in light of the operational difficulties caused by COVID-19.

The proposed rule change amends Supplementary Material .01, Temporary Relief for Completing Office Inspections, of MSRB Rule G-27, to permit broker-dealers to conduct inspections of municipal offices of supervisory jurisdiction, branch offices or non-branch locations remotely, subject to certain conditions,

for the calendar year 2020 and 2021, without the need to conduct an on-site visit to such offices or locations.

Our firm plans to conduct remote inspections for calendar year 2020 and 2021. Our CCO will ensure that our remote inspections are reasonably designed to assist in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Board rules.

Our remote inspections shall include:

- a description of the methodology, including technologies permitted by our firm, that may be used to conduct remote inspections; and
- the use of other risk-based systems employed generally by our firm to identify and prioritize for review those areas that pose the greatest risk of potential violations of applicable securities laws and regulations.

In addition, our CCO will make and maintain centralized records for each of calendar year 2020 and calendar year 2021 that identify:

- all offices or locations that were inspected remotely; and
- any offices or locations for which our firm determined to impose additional supervisory procedures or more frequent monitoring.

Our Municipal Securities Principal, working with our CCO, must ensure that we are in full compliance with MSRB Rule G-27 requirements.

Rule G-27 requires that we:

- Supervise the conduct of municipal securities business and related activities to ensure compliance with MSRB rules. The majority of MSRB supervision rules are met by our compliance with the FINRA rules governing supervision.
- Designate one or more associated individuals qualified as municipal securities principals, municipal securities sales principals, or as general securities principals to be responsible for the supervision of our municipal securities business and the activities of our associated personnel. Such designations have been made and are maintained by our Licensing and Registration Department.
- Designate a Municipal Securities Principal responsible for ensuring compliance under MSRB G-27.
- Designate a FINOP for financial reporting responsibilities.
- Adopt, maintain and enforce written supervisory policies and procedures reasonably designed to ensure that the conduct of our municipal securities business and all related activities complies.
- Include in the WSPs sections addressing, but not necessarily limited to:
    - How specifically designated individuals will monitor compliance
    - Policies and procedures to be followed by specifically designated principals concerning customer complaints (both municipal- and non-municipal-related)
    - How and when review activity is undertaken

- Required Municipal Securities Principal review of customer accounts
- Audit schedule for each office engaged in the securities business (including municipals)
- Books and records to be maintained, indicating whose responsibility it is to maintain which books and records
- Review of all discretionary accounts, including those with municipal securities transactions
- Review procedures for incoming and outgoing correspondence, including those relating to municipal securities transactions

- Revise and update our WSPs as necessary in response to new or altered rules and/or regulations and, also review annually our supervisory system and WSPs.

Our Municipal Securities Principal will annually review all the above for municipal securities transactions to ensure that we are in full supervisory compliance with all MSRB and attendant FINRA rules.

Supervision - General Overview

Procedures and Documentation

As required by MSRB Rule G-29, our Municipal Securities Principal must ensure that all appropriate individuals either have a hardcopy of the MSRB Manual, or have access to the Manual on the Internet. If a hardcopy is utilized, the Municipal Securities Principal must ensure that it is updated appropriately as rules are amended or as new rules are issued.

Our Municipal Securities Principal must further ascertain that we follow all applicable SEC recordkeeping rules (i.e., Exchange Act Rules 17a-4 and 17a-5) as well as MSRB Rules G-8 and G-9, which contain recordkeeping requirements beyond those of the SEC. At least annually, our Municipal Securities Principal will undertake a full review to determine that our recordkeeping requirements have been met.

Our Municipal Securities Principal must also review our internal policies and procedures to determine whether changes are required.

Restriction of Municipal Sales Personnel

Any individual associated with this broker-dealer as a registered representative who has not been previously qualified as either a general securities or municipal securities representative must wait for 90-days following the date of his first association with us before being permitted to transact any municipal securities business with any other broker-dealer or the public or before being compensated for such transactions.

Our Municipal Securities Principal ensures that all supervising principals are aware of the above restriction and that any restricted individuals under their immediate supervision are not engaging in municipal transactions until the 90 days have passed.

Time of Trade Disclosure

Policy Requirements

Rule G-47 states: *"No broker, dealer, or municipal securities dealer shall sell a municipal security to a customer, or purchase a municipal security from a customer, whether unsolicited or recommended, and whether in a primary offering or secondary market transaction, without disclosing to the customer, orally or in writing, at or prior to the time of trade all material information known about the transaction, as well as material information about the security that is reasonably accessible to the market."*

MSRB Rule G-48 contains the following Time of Trade Disclosure exception when the firm is dealing with SMMPs:

a. *Time of Trade Disclosure.* The broker, dealer, or municipal securities dealer shall not have any obligation under Rule G-47 to ensure disclosure of material information that is reasonably accessible to the market.

Procedures and Documentation

All Principals designated to oversee municipal securities transactions are required to ensure that all disclosures required at time of sale have been made and that documentation of compliance with G-47 has been maintained.

An MSRB principal, working with our CCO, is responsible for ensuring G-47 compliance by all applicable personnel. Training of all such personnel will be required so that all disclosure items called for under G-47 Supplemental Material .01 through .04 are fully understood and complied with.

.01 Manner and Scope of Disclosure.

a. The disclosure obligation includes a duty to give a customer a complete description of the security, including a description of the features that likely would be considered significant by a reasonable investor, and facts that are material to assessing the potential risks of the investment.
b. The public availability of material information through EMMA, or other established industry sources, does not relieve brokers, dealers, and municipal securities dealers of their obligation to make the required time of trade disclosures to a customer.
c. A broker, dealer, or municipal securities dealer may not satisfy its disclosure obligation by directing a customer to an established industry source or through disclosure in general advertising materials.
d. Whether the customer is purchasing or selling the municipal securities may be a consideration in determining what information is material.

.02 Electronic Trading Systems. Brokers, dealers, and municipal securities dealers operating electronic trading or brokerage systems have the same time of trade disclosure obligations as other brokers, dealers, and municipal securities dealers.

.03 Processes and Procedures. Brokers, dealers, and municipal securities dealers must implement processes and procedures reasonably designed to ensure that material information regarding municipal securities is disseminated to registered representatives who are engaged in sales to and purchases from a customer.

Our MSRB Principal and CCO will determine if there are additional applicable disclosure requirements.

Transaction Reporting

Procedures and Documentation

Our Municipal Securities Principal must ensure accurate and timely reporting of both interdealer municipal transactions and customer municipal transactions, as applicable.

MSRB Rules G-12 and G-14 require the reporting of municipal securities transactions within 15 minutes (i.e., real-time reporting), immediate dissemination of such transaction information (i.e., real-time dissemination) and automated comparison of interdealer transactions in such securities.

Close-outs

Per MSRB Rule G-12, transactions which have been compared or otherwise agreed upon by both parties but which have not been completed shall be closed out in accordance with G-12(h), which allows a close-out notice to be issued the day after the purchaser's original settlement date, with the last day by which the purchasing dealer must complete a close-out on an open transaction being 10 calendar days and permits the buyer to grant the seller a one-time 10 calendar day extension.

The rule also allows for the close-out process to provide three options to the purchasing dealer:

1. purchase ("buy-in") at the current market all or any part of the securities necessary to complete the transaction for the account and liability of the seller;
2. accept from the seller in satisfaction of the seller's obligation under the original contract (which shall be concurrently cancelled) the delivery of municipal securities that are comparable to those originally bought in quantity, quality, yield or price, and maturity, with any additional expenses or any additional cost of acquiring such substituted securities being borne by the seller; or
3. require the seller to repurchase the securities on terms which provide that the seller pay an amount which includes accrued interest and bear the burden of any change in market price or yield.

Our responsibility to ensure timely and accurate reporting exists in transactions being reported by a third party (e.g., clearing firm or other service bureau) on our behalf. The regulatory responsibility for all transaction reporting rests with this firm, and our Municipal Securities Principal receives and reviews documented evidence of any third-party reporting on our behalf.

If a third-party is causing us to fail to be in reporting compliance, the Municipal Securities Principal will immediately bring the matter to the attention of our CCO and Senior Management so that remedial actions can be taken.

At least quarterly, our Municipal Securities Principal will review and verify all municipal securities transaction reporting compliance to determine that such reporting is in with the MSRB and FINRA requirements.

Mutual Funds

Annual Review

Policy Requirements

In Notice to Members 02-85, FINRA requires that all broker-dealers engaged in mutual fund transactions involving front-end sales loads annually review the adequacy of their policies and procedures, "to ensure that they are designed and implemented so that investors are charged the correct sales loads on mutual fund transactions," particularly for mutual fund transactions involving letters of intent and rights of accumulation.

In January 2019, FINRA published its Annual Risk Monitoring and Examination Priorities Letter, where FINRA announced plans to evaluate whether firms are meeting their suitability obligations and risk disclosure obligations when recommending products such as leveraged and inverse exchange-traded funds (ETFs), floating-rate loan ETFs (also known as bank-loan or leveraged loan funds) and mutual funds that invest in loans extended to highly indebted companies of lower credit quality.

In January 2020, OCIE published its 2020 Examination Priorities, stating that it will continue to prioritize the examination of financial incentives provided to financial services firms and professionals that may influence the selection of particular mutual fund share classes. OCIE also will review for mutual fund fee discounts that should be provided to investors as a result of policies, contractual or disclosed breakpoints, such as discounts provided based on achieving managed investments of a specific size.

Procedures and Documentation

Our CCO must ensure an annual review of the adequacy of our policies and procedures regarding breakpoints, letters of intent and rights of accumulation.

An ongoing review will include an assessment of whether this broker-dealer has charged the correct sales loads.

We are required to provide customers with the lowest front-end sales charge percentage. Our policies and procedures include the following information:

- Customer's account and related and/or linked accounts
- The dollar size of pending transactions
- The dollar size of anticipated transactions
- The amounts previously invested in the specific fund and other related funds, valued as specified in the prospectus

Anti-Reciprocal Rule

Policy Requirements

Execution of Investment Company Portfolio Transactions

FINRA Rule 2341 prohibits any sort of reciprocal or quid pro quo arrangements for the sale of mutual funds. This firm may not favor or disfavor any investment company or family of funds because of brokerage commissions received or expected to be received. We may not offer or promise another broker-dealer any brokerage commissions from any source as a condition for the sale or distribution of shares of a mutual fund. We may not request or arrange with any other broker-dealer to direct of a specific amount or percentage of commissions conditioned upon that broker-dealer's sales or promise of sales of shares of an investment company. We may not circulate information regarding the amount or level of commissions received by us from any investment company or covered account to other than management personnel. As underwriters, broker-dealers may not suggest, encourage or sponsor any incentive campaign or special sales effort of another broker-dealer which is, based upon or financed by commissions directed or arranged by the underwriter.

We may not:

- Offer incentive or additional compensation for the sales of shares of specific investment companies based on the amount of brokerage commissions received or expected from any source, including bonuses, preferred compensation lists, sales incentive campaigns or contests or any other method of compensation that provided an incentive to favor or disfavor any one investment company or family of funds
- Create recommended, selected or preferred lists of investment companies if such companies are selected based on brokerage commissions received or expected to be received
- Grant to any affiliated persons any participation in brokerage commissions received by us from portfolio transactions of a mutual fund whose shares are sold by us, or from any covered amount, if such commissions are directed by or identified with such investment company or any covered account
- Use sales of shares of a mutual fund in negotiating the price of or the amount of commissions to be paid on a portfolio transaction of an investment company or of any covered account, whether the transaction is executed in an OTC market or elsewhere

If provisions are not violated, there are no prohibitions against:

- The execution of portfolio transactions of any investment company or covered account by members who also sell shares of the investment company
- This firm selling shares of or acting as underwriter for an investment company that follows a policy, disclosed in its prospectus, of considering sales of shares as a factor in the selection of broker-dealers to execute portfolio transactions, subject to the requirements of best execution
- Compensating our personnel based on total sales of investment company shares, provided that such compensation (i.e., overrides, accounting credits, other compensation methods) is not designed to favor or disfavor sales of shares of investment companies as prohibited under FINRA Rule 2341.

Procedures and Documentation

Our CCO will ensure that we do not enter into any inappropriate arrangements regarding the sale of mutual funds.

Our CCO will ensure that all special sales programs and promotions outside the standard commission schedule are reviewed at least annually to determine compliance with the anti-reciprocal rule.

All such reviews will be documented for the files, indicating the information used to determine which funds to offer, copies of signed selling agreements reviewed and records of special sales programs and promotions, the date of the review, the names of individuals conducting the review and any findings, including corrective measures taken, if applicable, due to deficiency findings.

Breakpoints/Rights of Accumulation, Letters of Intent/Splitting/Linking

Policy Requirements

A breakpoint is defined as a *"reduction in the sales charge commensurate with the size and nature of the transaction."*

The terms for breakpoints vary from fund to fund. For example, a fund might charge a front-end sales load of 5.75 percent for all purchases under $50,000 and reduce that to 4.50 percent for purchases aggregating at least $50,000 but less than $100,000. After $100,000, the fund may further reduce the sales charge or eliminate it altogether.

Investors may receive breakpoints by using a letter of intent, (a statement signed by the investor indicating an intent to purchase a certain amount of fund shares over a stated period), or through the right of accumulation (the discount or breakpoint received in a current mutual fund transaction based on the cumulative value of previous transactions).

Breakpoints/Rights of Accumulation/Letters of Intent

Registered personnel must alert clients close to a breakpoint that they can receive a reduced sales charge by either purchasing some additional shares or by using a letter of intent or rights of accumulation.

Splitting

Clients may miss mutual fund breakpoints if their entire investment was placed in only one mutual fund family when a representative recommends client's investment should be split among various funds.

Linking

The most frequent reasons for not getting breakpoint discounts are a failure to link funds as follows:

- Customer's ownership of different funds in the same mutual fund family
- Shares owned in a fund or fund family in all of a customer's accounts at the broker-dealer

- Failure to link shares owned in the same fund or fund family by persons related to the customer (e.g., spouse, children)

In its December 2002 Special Notice to Members 02-85, FINRA indicated that if the terms of a dealer agreement with a mutual fund company or complex impose the obligation on the broker-dealer to assure that the broker-dealer provides the appropriate breakpoint in a given transaction or transactions, the broker-dealer must:

a. Ensure that its registered personnel engaged in processing mutual fund transactions and those designated to oversee their activities understand the terms of offerings and reinstatements
b. Ascertain the information that should be recorded on the books and records of it and, if applicable, its clearing firm, necessary to determine the availability and appropriate level of breakpoints
c. Apprise the customer of the breakpoint opportunity and inquire whether the customer has positions or transactions away from the member that should be considered in connection with a pending transaction
d. Ensure the appropriate training of all personnel processing or reviewing these transactions to ensure the accurate transmission of information pertaining to all aspects of a mutual fund order, including any applicable breakpoint, in a manner retrievable by the fund company
e. Have in place appropriate and sufficient procedures including supervisory procedures with respect to breakpoint calculations

Absent a clearing arrangement in which a clearing broker expressly assumes the agency obligations in accordance with Rule 4311, introducing firms must ensure that they have the capacity and capability to ensure that customers receive the benefit of all applicable discounts.

Procedures and Documentation

On an ongoing basis, our CCO will monitor any mutual fund transactions undertaken by individuals under their direct supervision to ensure that they obtain all appropriate information, make all appropriate disclosures and prepare and retain all appropriate documentation.

This review by our CCO will determine whether certain registered personnel require further training based on:

- Issues that have arisen during our breakpoint reviews, whether regulatory findings or customer complaints, and/or
- Recommendations received from supervising principals regarding those registered personnel.

If the client insists on making the purchase below a breakpoint level, a supervising principal must give approval prior to order entry.

In instances where a client wishes to split a sum of money between two or more families of funds, registered representatives must inform their clients of the missed breakpoint before proceeding with the split transaction. Should the client wish to proceed with such a transaction, a supervising principal must approve the transaction prior to order entry.

For clients to take advantage of the commission discounts available under a letter of intent or rights of accumulation, registered personnel must systematically link the related accounts. Accounts of an individual may not be automatically linked to those of their spouse, minor children and/or IRAs unless the fund prospectus specifically allows such linking.

This firm must have procedures and appropriate training in place to ensure that all appropriate individuals understand the proper steps for inputting correct information into automated processing and settlement systems (e.g., Fund/SERV).

Such systems may not disclose to the fund company the identity of our customer, and we cannot therefore rely on the fund company to allocate the correct breakpoint to a transaction or to override our failure to do so.

Our CCO must ensure that:

- Customers are apprised of breakpoint opportunities and asked about positions or transactions away from this firm that should be considered regarding a pending transaction
- The information is transmitted in an accurate manner, retrievable by the mutual fund company
- This firm has in place appropriate and sufficient procedures, including supervisory procedures, for breakpoint calculations

Regardless of services offered by a clearing firm, other systems utilized to effect mutual fund transactions or a combination of both, we must have the capacity and capability to ensure that customers receive the benefit of all applicable discounts.

Backdated Letters of Intent (LOI) or Rights of Accumulation (ROA)

If an LOI or ROA should have been obtained from a client but was not, our CCO will immediately ensure that the client is contacted and that we obtain the appropriate document.

Identification of Same-Day Transactions for ROA/LOI Purposes

The Cross-Reference Exception Report received from our clearing firm daily indicates multiple same-day transactions within one fund family. Our CCO reviews these transactions to determine whether a breakpoint has been met or whether the client should enter into a letter of intent.

This report also indicates ROA-eligible accounts, giving the total market value to determine that a breakpoint has been met.

We will maintain documentation of reviews of this exception report, including initials, dates, notes concerning any findings and corrective measures taken.

Cash and Non-Cash Compensation

Policy Requirements

FINRA Rule 2341 states that, except as described below, associated persons will not accept compensation from anyone other than the broker-dealer with which they are registered.

A non-FINRA member firm may pay compensation directly to our associated personnel, provided that:

- We have agreed to the arrangement
- We rely on an appropriate rule, regulation, interpretive release, interpretive letter or no-action letter issued by the SEC
- The receipt by associated personnel of such compensation is treated as compensation received by us for purposes of FINRA Rules
- The recordkeeping requirement under FINRA Rule 2341 is satisfied

Prospectus Disclosure Requirements

This broker-dealer may not accept cash compensation from an offeror unless it is described in a current prospectus of the investment company. When special cash compensation arrangements are made available by an offeror to a member, but not to all member firms that distribute the investment company securities of the offeror, we shall not enter into such arrangements unless the name of our firm and the details of the arrangements are disclosed in the prospectus. Such disclosure requirements do not apply to cash compensation arrangements between:

- Principal underwriters of the same securities
- The principal underwriter of a security and the sponsor of a unit investment trust that utilizes such security as its underlying investment

Permitted are:

- Gifts that do not exceed an annual amount per person fixed periodically by FINRA (currently $100) and are not preconditioned on achievement of a sales target
- An occasional meal, ticket to a sporting event/theater or comparable entertainment that is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target
- Payment or reimbursement by offerors relating to meetings held by an offeror or by this firm for training or education, provided that the requirements of Rule 2320 are satisfied
- Noncash compensation arrangements between this firm and its associated persons or a nonmember company and its sales personnel who are associated persons or an affiliated member, provided we comply with the requirements of Rule 2320.

Procedures and Documentation

Our CCO will ensure that appropriate individuals receive the necessary training to understand the prohibitions in terms of cash or noncash compensation and will undertake appropriate reviews to ensure that these individuals adhere to the prohibitions.

Our designated supervising principals have the daily responsibility for deterring and detecting violations of Rule 2341. We will retain documentation of the following:

- All required formal requests for receipt of cash or noncash compensation, with the written response, maintained either in the individual's personnel/Form U-4 file or in another appropriate file.
- Any permitted cash and noncash compensation paid to our registered employees, monitoring such compensation at least quarterly. Evidence of such maintenance and review will indicate the date of any list updates, with the initials of the individual who updated the list and notes concerning any findings during the review that required follow-up actions.
- Reviews of any non-cash compensation arrangements to ensure consistency with the applicable requirements of Regulation Best Interest.
- All compensation received by the firm or its associated persons from offerors. Such records shall include the names of the offerors, the names of the associated individuals, the amount of cash, the nature, and, if known, the value of noncash compensation received.

Dealer-Use-Only Materials

Procedures and Documentation

Our designated supervising principals will ensure that the individuals under their immediate supervision appropriately handle all dealer-use-only mutual fund materials.

Correspondence review by designated principals will look for the inclusion of restricted materials.

Supervising principals will also ensure that areas accessible to the public are free of any dealer-use-only material and advise all individuals under their supervision not to have any such materials on their desks when speaking face-to-face with a customer or potential customer.

Each supervising principal will maintain copies of all dealer-use-only materials, indicating to whom the material was distributed. In addition, our Advertising Principal will maintain copies of all dealer-use-only materials distributed throughout the firm, indicating to whom it was distributed and the dates.

Deferred Sales Charge/Redemptions

Policy Requirements

Deferred sales charges must be disclosed on the front of a customer's purchase confirmation. It is a violation to state, or imply, that an investment company with a contingent deferred sales charge is a no-load fund (see Notice to Members 89-35).

Investors purchasing a no-load or no-initial-load fund must be made aware of existing redemption sales charges.

It is an unfair sales practice and an omission of material information to state that there is no initial load without providing a complete explanation of any contingent deferred sales load (i.e., a sales load that is charged on redemption on a declining-percentage-basis annually, usually reduced to zero percent by the sixth or seventh year of share ownership).

It is our obligation to ensure that clients understand the nature of all various charges made by mutual funds to defray sales and sales-promotion expenses, regardless of whether those charges are deducted from the investor's initial purchase payment, charged upon redemption or levied against the net assets of the fund.

FINRA Rule 2341, Disclosure of Deferred Sales Charges, requires that, if the transaction involves the purchase of shares of an investment company that appropriate written confirmation includes the following legend:

"On selling your shares, you may pay a sales charge. For the charge and other fees, see the Prospectus."

This legend must appear on the front of the confirmation and must be in at least 8-point type.

Procedures and Documentation

When it is suspected that appropriate disclosures were not made, an appropriate designated supervisory principal will contact the client to ensure he or she did not receive any misleading information.

Should the review find that the required disclosures are not being made, steps will be taken to immediately contact the mutual fund(s), asking them to take corrective action. A red flag that the above review will look for is any registered individual's involvement in a greater-than-usual number of redemptions. Any individual may recommend such redemptions then engage in selling-away activities with the customer's redeemed funds.

It is our policy that no redemptions will be handled on a firm repurchase basis; we will only assist customers with their redemption requests.

Multi-Class Mutual Funds

Policy Requirements

Suitability Issues for Multi-Class Mutual Funds

Investors often have the option of choosing from different classes of shares. In a multi-class structure, each class of shares invests in the same portfolio of securities but may be sold through different distribution arrangements and may entail different expense levels. Likewise, different classes of shares may result in different sales compensation paid to broker-dealers and their registered representatives.

Although the purchase of certain fund classes may allow an investor to avoid paying a front-end sales load, the cost imposed by a class's higher expenses may outweigh this benefit, particularly for large dollar purchases.

The benefit for an investor's long-term results from breakpoints, rights of accumulation and letters of intent may reduce the sales charges paid on purchases of share classes of funds with high front-end sales charges, and must be considered when comparing fund charges.

Class A Shares - Broker-sold mutual funds often offer three classes of shares. One class, generally designated as Class A shares, may impose a front-end sales load but may impose no, or a low, ongoing fee to pay for sales and marketing expenses, referred to as a Rule 12b-1 fee. Often, breakpoints in the sales load structure will cause the front-end load percentage to decrease as the investment amount increases. Additionally, other methods may decrease the sales load paid on subsequent purchases, such as through rights of accumulation and letters of intent.

Class B Shares - A second class, often designated as Class B shares, may not impose a front-end sales charge. This may make B shares more attractive to investors and therefore easier to sell. However, B shares may impose a contingent deferred sales charge ("CDSC") on share redemptions and a relatively high 12b-1 fee , an asset-based fee. The amount of the CDSC normally declines the longer the shares are held. Furthermore, Class B shares often automatically convert to Class A shares and thus pay lower 12b-1 fees after a period, usually after the CDSC declines to zero.

Class C Shares - A third class, often designated as Class C shares, may not impose a front-end or a back-end sales load, but may impose a relatively high 12b-1 fee. Additionally, some mutual funds offer classes that impose no front-end or back-end sales charges and a relatively low 12b-1 fee, but only offer such classes to retirement plans or institutional investors.

Additional Class Designations - Fund sponsors may also choose class designations and expense structures other than those described above.

Various Classes and Their Impact on Breakpoints, Rights of Accumulation or Letters of Intent

Regulatory Concerns

Notices to Members 94-16 and 95-80 remind members that a member should consider the fund's expense ratio and sales charges as well as its investment objectives in determining the suitability of a fund for an investor.

Additionally, FINRA Rule 2341 generally prohibits members from selling mutual fund shares in dollar amounts just below the sales charge breakpoint in order to increase a member's compensation.

In December 2018, OCIE issued its 2019 Examination Priorities, which included mutual fund share classes. Specifically, OCIE will continue to evaluate financial incentives for financial professionals that may influence their selection of particular share classes.

Procedures and Documentation

All personnel engaged in mutual fund transactions are trained and supervised not to recommend Class B or C shares to investors who seek to purchase in large amounts and who would incur significantly lower sales charges for Class A share purchases due to the availability of breakpoints, rights of accumulation or letters of intent.

In addition, our registered personnel receive training on the utilization of FINRA's Mutual Fund Expense Analyzer and share results with their customers.

In addition, our designated supervising principals must conduct ongoing monitoring of any mutual fund transactions undertaken by individuals under their direct supervision to ensure that all appropriate disclosures are made and all appropriate documentation is prepared and retained.

The designated principal must ensure that all registered personnel engaged directly in mutual fund transactions, or involved due to an oversight responsibility, receive sufficient training to consider the suitability of recommending certain higher-expense classes of mutual fund shares, particularly when an investor seeks a long-term investment.

Day-to-day supervision will ensure that we receive information about an investor's investment goals and objectives, including the investor's time horizon. We must inform any investors seeking to avoid front-end loads of the potential long-term effect of the higher ongoing sales charges associated with Class B shares, and Class C shares, if applicable.

Supervising principals will ensure that we meet our responsibility of giving all potential mutual fund investors a complete, comprehensive description of share-class characteristics to allow them to be sufficiently educated to choose the class most suited to their investment needs.

NAV Transactions/NAV Transfer Programs

Procedures and Documentation

Our designated supervising principals must ensure that all individuals under their direct supervision appropriately and consistently handle NAV transactions.

NAV Mutual Fund Transactions

Daily, our CCO will review exception reports received from our clearing firm to ensure that all mutual fund transactions offered to our clients at NAV were indeed purchased at NAV. If the CCO finds a front-end-load sales charge paid on a purchase that should have been done at NAV, the transaction will be canceled and corrected to reflect the proper price.

NAV Transfer Programs

While many mutual funds have discontinued their NAV transfer privileges, our CCO must know which of the funds offered by us do permit such privileges.

NAV transfers enable client dollars to be switched from one load-fund group to another at NAV, thereby avoiding an additional round of sales charges.

This is only of concern when we have undertaken a transaction in a front-end loaded A share for which we have not waived the commission. Such a transaction would require a switch letter which will be

reviewed to ensure that if the fund into which the money is being invested has an NAV transfer program, the customer does, in fact, receive NAV purchase price.

For any A share purchase for which we have received a commission, we must ensure that, should we transfer a client's funds via NAV transfer program, the purchase is, in fact, made at NAV. To do this, we will review the next-day transaction information received from our clearing firm, or review commissions received from the mutual fund for direct business, to determine that no commissions were paid on the transaction.

Prompt Payment for Investment Company Shares

Procedures and Documentation

Our CCO will ensure that we have appropriate policies and procedures in place to comply with FINRA Rule 2341.

Our CCO will review our checks received and forwarded logs to ensure that we have transmitted payments received from customers for mutual fund sales to the appropriate payee (i.e., underwriter, investment company, transfer agent) by the end of the third business day following a receipt of a customer's order to purchase such shares, or by the end of one business day following receipt of a customer's payment for such shares, whichever is later.

Reinstatements

Policy Requirements

Many mutual funds have a reinstatement policy allowing investors to reinvest proceeds from sales of shares of the fund without paying a front-end sales charge. Generally, the reinstatement must occur within a specified period (e.g., 90-days) and must be in the same share class of that fund or another fund within the same fund family.

Same-Day Transactions

Procedures and Documentation

Our CCO must conduct reviews to identify same-day mutual fund transactions for right of accumulation/letter of intent (ROA/LOI) purposes.

The Cross Reference Exception Report received from our clearing firm daily lists all multiple same-day transactions within one fund family. Our CCO reviews these transactions to determine whether a breakpoint has been met or whether specific clients should enter into Letter of Intents.

This report also indicates ROA-eligible accounts giving the total market value to determine that a breakpoint has been met.

Selling on Dividends

Policy Requirements

FINRA's Conduct Rules prohibit the selling on dividends (i.e., a representation made to the client that an advantage would be gained in purchasing a mutual fund in anticipation of a dividend distribution).

Procedures and Documentation

Our CCO must ensure that all registered personnel understand the prohibition against selling on dividends.

Our designated supervisory principals are responsible for ongoing monitoring of all mutual fund transactions engaged in by the individuals under their direct supervision and to ensure that we adhere to all appropriate compliance and disclosure requirements.

Where it is suspected that a registered representative has used selling on dividends sales tactics, an appropriate principal will contact the client to ensure he or she was not given any misleading information.

Suitability and Training Overview

Procedures and Documentation

Our designated supervisory principals are responsible for ongoing monitoring of all mutual fund transactions engaged in by the individuals under their direct supervision and for ensuring that they appropriately deal with all suitability issues.

Training and Training Documentation

Our CCO will ensure that all registered personnel engaged in mutual fund transactions, as well as those individuals charged with supervising such activities, receive appropriate suitability training including, but not necessarily be limited to, the following:

- When recommending mutual fund transactions, registered personnel must be aware of the information required for suitability purposes (FINRA Rule 2111) as well as obligations under Regulation Best Interest.
- When recommending mutual funds, registered personnel must ensure that investors understand the concept of total return.
- Registered personnel must make it clear that total return measures overall performance of a mutual fund, whereas current yield is based only on interest or dividend income received by the fund.
- They must offer a clear explanation of the difference between return of principal and return on principal.
- The starting point for any recommendation of a mutual fund to a customer is the investor's objectives and financial situation.

- Suitability must be the final determining factor of what investment vehicles are appropriate for a client.

Key Points Regarding Mutual Funds

All registered personnel engaged in mutual fund transactions, or those responsible for overseeing individuals engaged in such activities, must ensure the following:

- A complete and balanced disclosure is made to investors regarding the distinctions among classes of a multi-class fund or feeders of a master-feeder fund.
- When presenting an expense ratio as an advantage of a fund, the customer is told the ratio in the context of, and compared with, other mutual fund expense ratios.
- Registered personnel adhere to the prohibition against representing an investment company as being no-load or having no sales charges if the investment company has a front-end or deferred sales charge or whose total charges against net assets to provide for sales-related expenses and/or service fees exceed .25 of one percent of average net assets per annum.
- Registered personnel do not make an offer or sale of securities of an investment company with an asset-based sales charge unless the prospectus discloses that long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charges permitted (FINRA Rule 2341). Such disclosure shall be adjacent to the fee table in the front section of the prospectus.
- Derivatives included in a fund must be fully disclosed, and all potential risks clearly explained.
- When presenting performance information, the concepts of total return, yield and distribution rates must be explained to the investor.
- All suitability training will also include the following, which may, or may not, be directly tied to suitability but are important matters surrounding mutual fund transactions:
    - Breakpoints
    - Letters of intent
    - Rights of accumulation
    - Linking
    - Switch letters
    - Unauthorized switching
    - Issues surrounding various mutual fund classes
    - Selling on dividends
    - Gifts and gratuities
    - Awareness of all discount scenarios offered by each fund
    - Materials designed for internal or dealer-only use must not distributed in any manner to the public, either orally or in writing

When reviewing mutual fund transactions, supervising principals must be sensitive to the patterns of purchases and solicitations that may indicate potential suitability problems.

All appropriate individuals will receive the required training to ensure that they understand the proper steps for inputting correct information into automated processing and settlement systems. Such

systems may not disclose the identity of our customer, so we cannot rely on the fund company to allocate the correct breakpoint to a transaction or to override our failure to do so.

Switching

Policy Requirements

A mutual fund switch is the sale and subsequent purchase of a mutual fund within a specified period. Mutual funds are normally used as long-term investments. Short-term, in-and-out trading, or switching, between families of funds (i.e., many funds under a single management company) that result, or could result, in additional commission charges or that could establish new required holding periods is strictly prohibited, both under this firm's internal policies and under regulatory standards.

Procedures and Documentation

Whereas switching is unsuitable for most investors, under certain circumstances a switch may be reasonable and justifiable. This determination should be discussed with and approved by the representative's supervising principal prior to executing any transaction involving switching. If a switch is approved, the client must complete the Brighton Securities Mutual Fund Transaction Request form that is then kept on file. The supervising principal will review the switch letter, with such review evidenced by initials and dates.

The supervising principal must also determine whether sufficient information has been obtained to identify the original source of funds used to purchase a mutual fund in switching situations. If this information has been obtained and is an acceptable switch from one source of funds to the mutual fund investment, the supervising principal will evidence the review by initials and dates.

The supervising principal must also determine if, at the time of the transaction, the client was aware of any additional charge to him/her resulting from the switch or the imposition of a new required holding period.

Unit Investment Trusts

Policy Requirements

Unit Investment Trusts (UITs) that charge initial sales charges sometimes offer discounts based on the dollar amount or number of units of the investment. The thresholds at which the discounts are offered in the sale of UITs generally are called price breaks, and are like breakpoint discounts in the sale of mutual fund shares.

Notice to Members 04-26 cautions firms that *"the same duties [that apply to correctly applying breakpoint discounts in the sale of mutual fund shares] extend to the sale of UITs that offer price breaks, and firms should develop and implement the same type of procedures for ensuring the proper application of such discounts relating to the sale of UITs.."*

Procedures and Documentation

While Notice to Members 02-85, and the training materials and forms developed by FINRA are specific to mutual funds, FINRA suggests in Notice to Members 04-26 that firms look to both sources for guidance in designing appropriate procedures with respect to the sale of UITs.

Designated supervising principals will indicate that sufficient disclosure has been made prior to the approval of any UIT transaction by initialing the order ticket, or new account form when the first transaction involves a Unit Investment Trust.

Where quarterly client file reviews indicate that price break information is not properly disclosed to customers, discussions will be held with the registered personnel involved and a determination regarding what action will be taken (i.e., client contact, additional training, withholding of commissions, etc.).

Non-Conventional Investments

Policy Requirements

Alternative investments to conventional equity and fixed income investments include asset-backed securities, distressed debt, index-linked notes, non-traded REITS, equity-linked notes, multi-callable step up notes, redeemable secured notes, auction rate preferred securities, principal protected index-linked CDs, derivatives products and emerging market debt securities, collectively referred to as NCIs. Each of these have complex terms and features.

In Notice to Members 03-71, FINRA states that *"an investment in an NCI does not in any way diminish a broker-dealer's responsibility to ensure that such a product is offered and sold in a manner consistent with the firm's general sales conduct obligations."*

Some NCIs are marketed as offering greater security or a guaranteed return on investments. Other products seek to maximize the potential return on investments. Some have unique features relating to risk and reward that may not be readily understood by the registered representative selling them nor by the retail investor purchasing them.

Procedures and Documentation

Sales and Training

Our CCO and all supervising principals must be certain that all registered persons understand the features of any product we recommend so they can perform the required suitability analysis before executing a transaction.

Given the complex nature of NCIs and the potential for customer harm or confusion, supervising principals must review all NCI transactions prior to approval to ensure that all registered personnel under their supervision who offer customers NCIs have:

- Undertaken appropriate due diligence with respect to the product;
- Performed a reasonable-basis suitability analysis; and

- Undertaken customer-specific suitability analyses for recommended transactions.

In addition, our CCO will conduct annual reviews of all NCI transactions and marketing material to ensure that:

- All promotional material being utilized is fair, accurate and balanced
- Appropriate internal controls have been implemented
- All registered personnel engaged in the sale of these products have received adequate training
- Appropriate due diligence has been done on the product, prior to it being offered, including:
    - The liquidity of the product
    - The existence of a secondary market and the prospective transparency of pricing in any secondary market transactions
    - The creditworthiness of the issuer
    - The creditworthiness and value of any underlying collateral
    - The creditworthiness of any counterparties, where applicable
    - Principal, return, and/or interest rate risks and the factors that determine those risks
    - The tax consequences of the product
    - The costs and fees associated with purchasing and selling the product

While we can rely on representations regarding an NCI that are contained in a prospectus or disclosure document, reliance on such materials alone may not be sufficient for us to satisfy our due diligence requirements.

In such instances, our CCO will ensure that we obtain additional information about the NCI, and if we cannot, recommend that the product is not appropriate for sale to the public.

Registered personnel cannot rely too heavily on a customer's financial status as the basis for recommending NCIs, because net worth alone does not necessarily determine whether a product is suitable for a particular investor. Notice to Members 03-71 further states that, *"given the unique nature of NCIs, these products may present challenges when it comes to a member's duty to dispense its suitability obligation; however, the difficulty in meeting such challenges cannot be considered as a mitigating factor in determining whether members have met their suitability obligations. NCIs with particular risks may be suitable for recommendation to only a very narrow band of investors capable of evaluating and being financially able to bear those risks."*

To ensure suitability for a specific customer, our registered personnel must examine:

- The customer's financial status
- The customer's tax status
- The customer's investment objectives
- Such other information used or considered reasonable in making recommendations to the customer (pursuant to FINRA Rules 2090, 2111, and Regulation Best Interest)

Promotional Materials

Our Advertising Principal must ensure the fairness and balance of all sales materials and oral presentations, including the risks and benefits of investing in these products. We may not claim that certain NCI products (e.g., asset-backed securities, distressed debt, derivative contracts or other products) offer protection against declining markets or protection of invested capital unless these statements are fair and accurate. We must provide investors with any prospectus and/or other disclosure material provided by the issuer or sponsor, but simply providing such material does not offset unfair or unbalanced sales or promotional materials, whether prepared by this firm, the sponsor or the issuer.

In addition, we will review NCI advertising and sales literature to ensure they provide an accurate and balanced description of the risks and rewards of any NCIs being offered.

We may not utilize any NCI promotional materials that do not clearly indicate preapproval by an appropriate principal and that, if necessary, have been filed with FINRA.

Digital Assets

Procedures and Documentation

Brighton Securities Corp, as a matter of policy and practice, does not engage in activities related to digital assets. Brighton Securities Corp reviews all firm accounts on an annual basis to ensure that there are no customer assets invested in digital assets. Brighton Securities Corp's policy of not holding digital assets is disclosed to clients.

If a client chooses to withdraw funds from their account to invest in digital assets, Brighton Securities Corp will provide a disclosure stating that Brighton Securities Corp does not recommend this course of action, and obtain the client’s signature.

Online Trading

Procedures and Documentation

Our CCO has overall responsibility for ensuring suitability requirements have been met and that best execution is obtained on all online transactions.

Our CCO, working together with internal or outside vendor IT personnel, has overall responsibility for ensuring that we have adequate systems to meet all customer demands for online trading.

Our CCO has overall responsibility for ensuring security of online trading activity and security of customer information.

We must ensure that online trades are handled appropriately regarding suitability, Regulation Best Interest, and principal approval. Any trades that have been recommended must undergo suitability checks, even though the trades may have been entered online by the customer.

Best Execution Review Procedures and Documentation

It is our ultimate responsibility to provide our online customers information on our best execution efforts, including the execution quality available on different market centers and our order-handling practices and inducements for receiving payment for order flow. Our clearing firm will make this information available to online clients.

The designated principal will receive a monthly copy of FINRA's Best Execution Report Card from our clearing firm. If the report card is not positive, the principal will contact the clearing firm for further investigation for determining whether to recommend that we change to a different clearing firm.

In addition, the designated principal will review a sample of transactions to determine whether best execution has been achieved. If approved by Senior Management and Compliance, our designated principal may also retain an outside vendor to undertake quarterly reviews of transactions to determine whether we have met best execution guidelines.

We will also review, evidenced by initials and dates, and maintain in our files numerical, statistical and other evidence of best execution as received from our clearing firm.

To ensure that we have undertaken all possible efforts to ensure best execution, we will also require that our clearing firm submit to us annually a copy of their WSP regarding best execution.

Systems Capacity Review Procedures and Documentation

We will require written assurance by any technology personnel we use, and from our clearing firm, that contingency plans are maintained and tested for any disruption of systems or services that may occur. We should also routinely test and evaluate both our systems and those of the clearing firm.

At least annually, the designated supervising principal will receive review, initial and maintain from both this firm and from our clearing firm copies of each entity's Business Continuity Plan to ensure that those documents sufficiently address systems capacity issues.

Security of Online Trading Activity/Information Security/Data Integrity Review Procedures and Documentation

The designated principal will ensure that prior to being permitted to trade online, the customer receives a user ID and password that will be verified by our computer programs.

Our designated principal will oversee and ensure the security of our website. Our clearing firm has the responsibility for information security, appropriate encryption, and authentication, evaluation of maximum capacity of its systems and backup procedures for possible system outages. The designated principal will ensure our clearing firm's ability to undertake the appropriate responsibility for all such controls and safeguards by requiring an annual attestation from the clearing firm. The principal undertaking the review will initial all information relating to this matter, and maintain it in our files.

Annually, we will receive written assurance that any data sent cannot be altered during the transfer, and, if any data has been added to or removed from the transmission, such action will be detected.

Such data-integrity controls must contain systems for immediate user ID and password termination in instances of alternations, as well as a control that will require immediate customer notification of such cancellation, explaining the reason for such action.

Form CRS Review Procedures and Documentation

On June 5, 2019, the SEC adopted new rules requiring all broker-dealers with retail clients to create a Client Relationship Summary (Form CRS), with the purpose of further explaining the nature of their services and relationship, their fees and costs, and their standard of conduct and conflicts of interest to prospective clients.

Form CRS must be delivered to prospective clients either at the beginning of a relationship with the firm, following a material change to the details of Form CRS, or upon certain events, such as when the client re-engages for a new or different relationship or service with the firm.

Our CCO will ensure that the firm's Form CRS is delivered to our retail clients and we will maintain proof of the Form CRS delivery and e-signatures in our records for six years.

Options

Advertising and Sales Literature

Procedures and Documentation

A designated ROSFP will ensure that all options advertising, sales literature, and marketing materials adhere to all rules and regulations, including FINRA Rule 2220.

At least quarterly, the designated ROSFP will review all the materials we use, to ensure that we do not use unapproved sales literature or advertising.

The designated ROSFP will maintain all options advertising/sales literature material for at least three years, indicating date of approval, name of individual who approved, and date of first use.

In addition, the designated ROSFP will determine, prior to final approval and utilization, whether the material requires submission to FINRA's Advertising Department.

Books and Records

Procedures and Documentation

A designated ROSFP must ensure that all required options books and records are appropriately maintained.

On an ongoing basis, the designate ROSFP will undertake a review of all options accounts for the following:

- Verify that each customer engaged in options transactions receives confirmations that contain all required information (i.e., complete description of transactions, identifying opening or closing transactions)
- Verify that customer approvals for options trading and written acknowledgments of the applicability of both Options Clearing Corporation (OCC) and Self-Regulatory Organization (SRO) rules have been obtained for the files
- Verify the appropriateness of procedures for sending monthly and quarterly statements to customers, including the required information, and that we adhere to those procedures
- Review the file or ledger for all options-related customer complaints
- Ensure that we maintain proper work papers and documentation relating to the allocation of exercise assignment and notices
- Ensure that, for any options transactions cleared P/D (Principally Disclosed) through another broker, we have received, or will receive, copies of customer account statements for at least six months

Complaints

Procedures and Documentation

A designated ROSFP is responsible for the appropriate handling of any options-related complaints.

The ROSFP will maintain a separate options complaint file, in which all activities related to a received complaint will remain open until a final resolution of the issue.

The ROSFP responsible for overseeing all options-related complaints will meet quarterly with our CCO, or the individual specifically designated to make all regulatory complaint filings, to ensure that no options-related complaints are overlooked.

Working with our CCO, the ROSFP will determine whether complaint trends indicate specific individuals who require follow-up actions, or if the trend indicates that we should enhance our policies and procedures.

Discretionary Accounts

Procedures and Documentation

The ROSFPs ensure that all requirements for Discretionary Options Accounts are adhered to.

(X) We do permit discretionary options accounts.

The ROSFP responsible for reviewing the acceptance of discretionary options accounts must confirm that there was a reasonable basis for believing that the customer was able to understand and bear the risks of the strategies or transactions proposed.

Time and Price Discretionary Authority

Absent specific written authorization from the customer to the contrary, FINRA Rule 2360 requires that the duration of the time and price discretionary authority be limited to the day such authority is granted.

Margin Procedures

Procedures and Documentation

A ROSFP will ensure that all options margin accounts are appropriately handled, monitored, and reviewed.

The designated ROSFP has a monthly obligation to complete the following:

- Review customer accounts to make certain options purchases have been paid in full
- Confirm compliance with appropriate margin maintenance requirements for uncovered short options, option straddles, short options covered by exchangeable or convertible securities, and conventional options
- Ensure that securities restricted, unregistered, or in any manner not saleable under the Securities Act of 1933 have not been accepted to satisfy margin requirements

New Account Procedures

Responsibility

A specifically-designated ROSFP (a list of all ROSFPs and their individual responsibilities is maintained by our CCO) must ensure the appropriateness of all options new account opening procedures, and that we adhere to these procedures.

Our CCO, must ensure the availability of sufficient training, oversight and ongoing monitoring of all options new account procedures. In addition, designated supervising principals must ensure full compliance on the part of the individuals under their immediate supervision.

Procedure

All options accounts must receive prior approval from the designated ROSFP before opening. All suitability information must be completed in its entirety. Review of all information obtained prior to account opening will be evidenced by initials, dates and approval of the new account form indicating that all information and materials have been obtained, and all appropriate disclosures made.

An options agreement, including a section for customer verification of financial information, pertinent to customer suitability, must be completed.

We will not permit any option or listed index warrant transaction unless the designated principal has a reasonable basis for believing at the time the client

- Has knowledge and experience in financial matters sufficient to make him/her reasonably capable of evaluating the risks of the recommended transaction

- Is financially able to bear the risks of the recommended transaction

Factors that we will consider include, but are not necessarily limited to

- Age
- Marital status
- Number of dependents
- Employment status
- Income
- Total net worth
- Investment experience
- Knowledge of particular markets
- Investment objectives
- Ability to undertake potential financial risks of transactions involved

Before approving an investment partnership for option trading, we will obtain a written document designating the person, or persons, authorized to sign each agreement on behalf of the partnership and stating that such authority specifically includes option trading.

The designated ROSFP will ensure that the customer receives the appropriate options prospectus/applicable booklets at, or prior to, the time the account is approved for option transactions. Proof that the prospectus was sent must be attached to the new account information, represented either by a cover letter or a note, dated and signed by the individual who supplied the prospectus.

At the time of opening a new options account, the file must note the level of options activity approved for the account (i.e., buying, covered writing, spreading, naked writing, etc.).

The ROSFP must also ensure that each customer to whom we previously delivered the disclosure document receives a copy of each amendment of the disclosure booklet not later than when the customer receives a confirmation of a transaction in the category of options to which the amendment pertains.

Additionally, should a client request it, we must also make available an options prospectus, available from the Options Clearing Corporation.

If applicable, our ROSFP must ensure that we adhere to FINRA Rule 2360 (formerly NASD Rule 2860(b)(20)) as that rule relates to options business transacted at a branch office.

No branch office may transact any options business unless the principal supervisors of such branch accepting options transactions are qualified as either Registered Options Security Futures Principals or a General Securities Sales Supervisors.

The above registration oversight requirements do not apply to branches with three or fewer representatives, as long as either a Registered Options Security Futures Principal or a General Securities Sales Supervisor appropriately supervises the options activities of the branch.

The designated ROSFP must also ensure that each principal supervisory office with jurisdiction over any branch servicing customer accounts has, or has readily accessible and promptly retrievable, sufficient information to permit review of each customer's options account on a timely basis to determine

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

The designated ROSFP will review all branch office review/audit reports to ensure the prior review of appropriate materials and to ensure that any deficiencies have been uncovered. We will maintain these reports, with any findings and corrective measures taken, in the files.

We will maintain appropriate books and records under the oversight of the specifically designated ROSFP, or our CCO, as required, and as documentation that we have complied with FINRA Rule 2360.

All order tickets must be initialed by an ROSFP or other appropriately designated individual.

The appropriately designated ROSFP will ensure that we follow the exercise assignment procedure prescribed by the clearing broker-dealer that executes the transaction, with steps taken to make such assurance maintained in the files.

Our CCO will review all options accounts at least annually to ensure that we adhere to all required procedures. We will document such review for the file, including dates, names of individuals conducting the review, scope of the review and findings, with details of any corrective measures taken if applicable.

Position Limits

Policy Requirements

Except in highly unusual circumstances, and with the prior written approval by FINRA pursuant to the Rule 9600 Series for good cause shown in each instance, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, non-member broker, or non-member dealer, an opening transaction through the over-the-counter market or on any exchange in a stock option contract of any class of stock options if the member has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer, non-member broker, or non-member dealer would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate equity options position in excess of (see further FINRA Rule 2360).

Procedures and Documentation

A designated ROSFP must ensure full compliance with FINRA Rule 2360 concerning options position limits.

Utilizing Interpretive Material IM-2860-1, Position Limits, our CCO will ensure that this firm undertakes at least annually a review to ensure that we are in full compliance with FINRA Rule 2360.

Position Reporting

Procedures and Documentation

An ROSFP will ensure that we report all options position in a correct and timely fashion.

The designated ROSFP will ensure that we submit reports in the manner prescribed by FINRA , if our account, a customer's account, or an associated person's account, establishes an aggregate options position of 200 or more option contracts of the put class and the call class on the same side of the market, covering the same underlying security or index.

We must file a position report in each of the following situations:

- The account has established a long and/or short position of 200 or more contracts of the put class and the call class on the same side of the market.
- A previously reported position has increased (e.g., from 250 contracts to 275 contracts).
- A previously reported position has decreased to one of less than 200 contracts (e.g., from 250 contracts to 199 contracts). Once a position has been reduced to less than 200 contracts, we need not file subsequent position reports until the account once again establishes a long and/or short position of 200 or more reportable contracts.

Designated supervising principals must advise the designated ROSFP of any large option positions to enable the appropriate reports to be filed in a timely manner.

At least a monthly, the designated ROSFP will review all options accounts to ensure that we have made appropriate disclosure of all large positions by the individual servicing the account.

Regulation T

Procedures and Documentation

A designated ROSFP ensures our full compliance with Regulation T.

For purposes of Regulation T, exchange traded options have no long value. Although such options may be purchased either in a special cash account or in a margin account, full payment must be made within the time required by Regulation T, unless the account has available funds to cover the purchase.

While Regulation T requires deposits of cash or securities to meet commitments for exchange-traded options made in a margin account within five business days, it should be noted that settlement by clearing firms and the Options Clearing Corporation are on the next-business-day basis.

When applicable, ROSFPs work with our FINOP and Senior Management to ensure that the firm pays out cash for options purchased on behalf of a customer several days before the required deposit due date pursuant to Regulation T. Because this could be a serious drain on our cash reserves creating possible

net capital issues, we may require a deposit from the customer earlier than the date mandated by Regulation T.

The appropriately designated ROSFP must ensure that we adhere to all Regulation T requirements and must review all Regulation T compliance efforts at least quarterly.

Private Placement Offerings

Private Securities Activities

Effective on October 1, 2018, principals solely responsible for supervising specified activities relating to private securities offerings may register as Private Securities Offerings Principals, instead of registering as General Securities Principals. Individuals can qualify for registration as a Private Securities Offerings Principal in several ways. An individual who is registered with FINRA as a Private Securities Offerings Representative and a General Securities Principal prior to October 1, 2018, and who continues to maintain those registrations on October 1, 2018, will automatically be granted a Private Securities Offerings Principal registration on October 1, 2018. Further, an individual whose registrations as a Private Securities Offerings Representative and a General Securities Principal were terminated between October 1, 2016, and September 30, 2018, is qualified to register as a Private Securities Offerings Principal without having to take any additional examinations, provided he or she registers as a Private Securities Offerings Principal within two years from the date of terminating those registrations. All other individuals registering as Private Securities Offerings Principals on or after October 1, 2018, are required to satisfy the Private Securities Offerings Representative prerequisite registration, including passing the SIE, and passing the General Securities Principal (Series 24) qualification examination.

Procedures and Documentation

Our CCO ensures that adequate supervision is given to all private securities activities.

Prior to selling private securities, employees must provide written notice to the Compliance Department, describing in detail the proposed transactions; the individual's proposed role therein; and any compensation arrangements.

Our CCO will approve or deny the individual's participation in the proposed transaction.

All approved transactions will be recorded on our transaction books and records, and the individual's participation will be supervised as if the transaction or transactions had been executed on behalf of this firm. Annually our CCO will ensure that we conduct a review of all approved private securities transactions to ensure that we are maintaining appropriate books and records and appropriately supervising the activities of the individuals permitted to engage in the private securities transactions.

Product Approval: New Product Vetting

Policy Requirements

Notice to Members 05-26 defines a new product as one that is *"either (a) new to the marketplace or (b) new to the broker-dealer and its registered personnel in terms of not having previously been offered to customers."*

Notice to Members 05-26 requires that broker-dealers have policies and procedures in place to ensure that no new product is introduced before it has been *"thoroughly vetted from a regulatory as well as a business perspective. At a minimum, procedures should identify what constitutes a new product, and ensure that the right questions are asked and answered before a new product is offered for sale."*

FINRA Rule 2111 calls for "Reasonable Basis Suitability" which requires firms to adhere to the following when recommending products:

There must be a *"reasonable basis to believe, based on reasonable diligence, that the recommendation [of the new product] 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 firm's or associated person's familiarity with the security or investment strategy. A firm's or associated person's reasonable diligence must provide the firm or associated person with an understanding of the potential risks and rewards associated with the recommended security or strategy."*

Our CCO, working with Senior Management, will ensure that all new products offered have undergone appropriate vetting procedures.

Our CCO must ensure that we maintain specific guidelines for determining what constitutes a new product, including when a modification of an existing product is material enough to warrant the same level of review as a new product. Prior to adding a new product to our approved product list, our CCO will require evidence that Senior Management, as well as any other appropriate personnel, have documented at a minimum:

- Whether the product is new to the marketplace or just to this firm?
- Is the new product a suitable recommendation for some investors?
- Whether we are proposing to sell a product to retail investors, which has previously only been sold to institutional investors?
- Whether a product will be offered by registered personnel who have not previously sold the product?
- Whether supervisors overseeing registered personnel who are selling the product will require additional training because they have no prior experience in such oversight?
- Would the product involve material modifications to an existing product, in terms of risk to the customer, risk to the firm, product structure, or fees and costs?
- Would the product require any material operational or system changes?
- Whether the product is an existing product that is being offered in a new geographic region, in a new currency, or to a new type of customer?
- Would offering the product require new sales practices, or significant changes to current sales practices?

- Would the product raise any conflicts that require identification and control?

Our CCO will ensure that we have a process in place for undertaking a formal product approval procedure. If there are any limitations in terms of which registered personnel may offer a specific new product, our CCO must clearly state such limitations, and ensure no potential confusion. These limitations may deal with the product only being available to a specific type of investor, such as those who qualify in terms of risk tolerance, net worth, etc.

Based on all factors considered prior to the final approval of a product, our CCO will ensure that all individuals involved in selling the product and all supervisory personnel involved in overseeing such individuals, receive appropriate training.

Our CCO will also determine which new products are sufficiently complex, or which have been strictly limited in some manner, to require a formal review process within a specified period, generally six months after approval of the product. Such a review will be undertaken, and appropriately documented, to determine whether product limitations and other post-sale compliance requirements have been met, and to evaluate whether market or other conditions have altered the risks associated with the product, by either lessening or heightening the associated risk.

In the post-approval reviews, we will at a minimum:

- Track and monitor customer complaints and grievances relating to the new product
- Reassess our training needs regarding the new product
- Establish procedures to monitor ongoing, firm-wide compliance with any terms and/or conditions placed on the sale of the product
- Reassess the suitability issues surrounding the product
- Review the product to determine if any restrictions or conditions on its sale may be lifted, maintained, or, if circumstances warrant it, heightened

Our CCO will maintain detailed documentation concerning all post-approval reviews in the product review files.

Proxy Forwarding

Procedures and Documentation

Our CCO must ensure that all appropriate information is promptly forwarded to beneficial owners of accounts.

For **equity securities**, our CCO will oversee the proper forwarding of all proxy material that is furnished to us by the issuer of the securities or a stockholder of such issuer, and all annual reports, information statements and other material sent to stockholders furnished to the broker-dealer by the issuer of the securities.

For **debt securities** other than a municipal security, our CCO will ensure that all reasonable efforts are made to forward any communication, document or collection of documents pertaining to the issue that

was prepared by, or on behalf of, the issuer or was prepared by, or on behalf of, the trustee of the specific issue of the security, and contains material information about such issue including, but not limited to, notices concerning monetary or technical defaults, financial reports, information statements and material event notices.

Approved Rates of Reimbursement

Rule 2251 gives approved rates of reimbursement for expenses incurred in forwarding proxy material, annual reports, information statements and other material. The Rule also specifies allowable reimbursement fees for the following: postage; envelopes, if not supplied by issuer, trustee or the person soliciting the proxies; actual communication expenses, either by telephone or electronically; follow-up mailings; the provision of beneficial ownership information; interim report, post meeting report and other material mailings; and incentive fees.

Our CCO must understand what fees are permitted and ensure that we do not exceed the guidelines contained within Rule 2551. Notice to Members 03-15 addresses allowable fees that can be charged for distributing proxy and other materials.

Real Estate Investment Trusts (REITs): Publicly Traded

Policy Requirements

Customer investments in REITs can take several forms.

- **Exchange traded REITs**

  All sections herein which are applicable to listed equities apply.

- **Private placements**

  See the Private Placement section in these WSPs.

- **Mutual Fund REITs**

  For requirements of REIT mutual fund transactions (i.e., mutual funds that invest in exchange listed REITs) and supervisory policies and procedures, see the Mutual Fund section in these WSPs.

- **Publicly-Traded REITs**

  These WSPs deal with publicly-traded REITs.

Suitability Determinations

When determining the suitability of a publicly-traded REIT, the relative illiquidity of public, non-exchange traded REITs compared to exchange traded REITs must be considered and fully described to customers.

In short, while exchange traded REITs are as liquid as any exchange listed equity, non-exchange traded REITs are not and, therefore, issues of price transparency (i.e., valuation) and liquidity become concerns.

As applicable, prospectuses and any other approved sales materials should be shared with the public and general conversations should take place regarding liquidity, valuations, real estate portfolio structure, performance, fees, etc. Suitability will determine which REIT investment vehicle is appropriate for a client. Where REITs have been the investment vehicle, client files must clearly define the investor's objectives, time frame, and financial situation.

Procedures and Documentation

Our designated supervising principals are responsible for ensuring that, on a day-to-day basis, all transactions involving REITs by individuals under their direct supervision are in full compliance, and that these individuals understand all the requirements.

- **Providing a Voluntary Estimated REIT Value** - We may voluntarily provide a per-share-estimated-value for a REIT security on an account statement, provided that the following conditions are met
    - The estimated value has been developed from data that is no more than 18 months old prior to the date that the statement is issued
    - A brief description of the estimated value, its source, and the method by which it was developed is provided
    - A disclosure that REIT securities are generally illiquid, and that the estimated value may not be realized when the investor seeks to liquidate the security

At least annually, our CCO will review customer files to determine if the disclosures listed above are made on the customer account statement or in a separate notice. The reviews of REIT transactions will consider the patterns of purchases and solicitations that may be indicative of potential suitability concerns.

- **Mandatory Estimated REIT Value** - If the annual report of a REIT includes a per-share-estimated-value for a REIT security that is held in the customer's account or included on the customer's account statement, we must include an estimated value from the annual report, an independent valuation service, or any other source, in the first account statement issued thereafter, provided that the three conditions noted above are met.

If an account statement does not provide an estimated value for a REIT security it must include disclosure indicating that:

- REIT securities are generally illiquid
- The value of the security will be different than its purchase price
- If applicable, note that accurate valuation information is not available

We must not include a per-share-estimated-value for a REIT security on an account statement if we can demonstrate the value was inaccurate as of the date of the valuation, or is no longer accurate because of a material change in the operations or assets of the program or trust.

Internal reviews of our customer files and transaction logs will look for inappropriate and unsuitable concentrations of REITs. Supervisory reviews must be conducted with a view towards the liquidity and valuation concerns inherent with non-exchange traded REITs.

We will perform such reviews at least quarterly. Our CCO will monitor this area of our business and maintain appropriate records indicating the dates of any such reviews, notations of any findings, and documentation of all appropriate remedial actions taken, where necessary.

Our CCO will work with our FINOP to determine appropriate customer account statement valuation disclosures and maintain documentation (e.g., REIT annual report, independent valuation service, or other source) supporting such valuation disclosures.

Underwriting

Public Offers of DPPs and REITs

Policy Requirements

FINRA Rule 2310 addresses the regulation of compensation, fees and expenses in public offerings of direct participation program (DPPs) and real estate investment trusts (REITs).

Procedures and Documentation

Our CCO will oversee our activities involving public DPP and REIT offerings and ensure that we are in full compliance with FINRA Rule 2310.

Quarterly, our CCO will review all DPP and/or REIT public offering underwritings in which we have been engaged to ensure that we are in full compliance with Rule 2310, including verification of the following:

- We adhere to the Rule's compensation limits and the use and allocation of offering proceeds.
- We have made appropriate disclosure regarding the liquidity of prior programs offered by the same sponsor.
- There have been no sales loads on reinvested dividends.
- We have enabled bona fide training and education at appropriate locations.

Variable Products

Advertising

Procedures and Documentation

Our Advertising Principal must ensure that all variable product advertisements and sales literature are reviewed internally and that FINRA submissions are made on a timely basis.

- We may not use variable product advertisements or sales literature prior to approval by an appropriate principal. The designated principal will maintain a file of all approved advertisements and sales literature. The designated principal will ensure that any

communication discussing the tax-deferral benefits of variable life insurance does not obscure or diminish the importance of the life insurance features of the product. Any variable life insurance communication that overemphasizes the investment aspects of the policy or potential performance of the subaccounts may be misleading and will not be approved or permitted to be used.

Product Identification (FINRA Rules 2210 and 2211)

Annuities - When offering an annuity product, the material must clearly describe the product as such. The presentation may not represent or imply that the product being offered, or its underlying account, is a mutual fund.

Variable Life Insurance - When offering a variable life insurance product, materials must clearly indicate that this is a life insurance product. Any variable life insurance communications that overemphasize the investment aspects of the policy or potential performance of the sub-accounts may be misleading.

Liquidity

Materials may not represent or imply that variable life/annuity products are short-term, liquid investments. Presentations concerning liquidity or ease-of-access to investment values must be balanced by clearly describing the implications of early redemptions.

Guarantees

While insurance companies make a number of specific guarantees about their variable life/annuity products (i.e., guaranteeing a minimum death benefit for a variable life insurance policy or a variable annuity owner), advertisements and sales materials for these products are prohibited from making any representation that any such guarantee applies to the investment return or the principal value of the separate account. In addition, we may not make a representation or implication that an insurance company's financial ratings apply to the separate account.

Fund Performance Predating Inclusion in the Variable Product

Historical performance included in communications may only be used provided that no significant changes have occurred to the fund at the time, or after it became part of a variable product. However, the performance of an existing fund may not be included for the purposes of promoting investment in a similar but new investment option (i.e., clone fund or model fund) available in a variable contract. Particular attention must be given to including all elements of return and deducting applicable charges and expenses.

Product Comparisons

Comparisons of investment products may be used only if the comparison complies with requirements set forth under FINRA Rule 2210, with particular attention being paid to the standards regarding comparisons in Rule 2210(d)(2)(M).

Use of Rankings

Rankings reflecting the relative performance of the separate accounts or underlying investment options may be included in advertisements and sales literature, providing all such use is consistent with standards contained in Interpretive Material IM-2210-3.

Insurance and Investment Features of Variable Life Insurance

If an adequate explanation of the life insurance features is given, communications on behalf of single premium variable life insurance may be emphasized. Sales materials for other types of variable life insurance must also provide a balanced discussion of these features.

- **Hypothetical Illustrations of Rates of Return in Variable Life Insurance Sales Literature and Personalized Illustrations**

  Hypothetical illustrations may demonstrate the operation of a variable life insurance policy. These illustrations may not be used to project or predict investment results as such forecasts are expressly prohibited by the Rules.

- **Hypothetical Tax-Deferral Illustrations in Variable Annuity Communications**

  Rule 2210(d)(1) requires that all member communications with the public provide a sound basis for evaluating the facts regarding a particular security and that they include material disclosures necessary to ensure the communications are fair, balanced, and not misleading. FINRA is concerned that these hypothetical illustrations rely upon assumptions that are not based upon current tax law or other reasonable factors.

  Generally, variable annuities have two phases: the accumulation phase, when customer contributions are allocated among the underlying investment options, and the distribution phase, when the customer withdraws money through various annuity payment options. One of the principal features of variable annuities is the tax-deferred treatment of earnings during the accumulation phase.

  Attempts to illustrate the benefits of the tax-deferral feature are often made with a hypothetical comparison of a variable annuity investment to a generic taxable account. Current tax laws provide that earnings from a variable annuity are taxable only upon withdrawal as ordinary income. In contrast, earnings from a taxable account are generally taxed annually and at rates that vary depending upon the nature of the earnings and the individual's tax bracket.

- When preparing hypothetical illustrations designed to depict the tax-deferral feature of variable annuities, or utilizing materials prepared by others, our Advertising Principal must consider the following factors:
  - Public communications must use identical gross investment rates of return for the hypothetical taxable account and variable annuity. The variable annuity portion of the illustration must reflect the charges associated with the annuity. Alternatively, the disclosure accompanying the illustration must specifically identify the applicable

charges, state that the charges have not been reflected in the illustration, and explain that had they been reflected, the return of the variable annuity would be lower.

- The materials must use and identify the actual federal tax rates applied in the hypothetical taxable illustration. The illustration may also reflect an actual state tax rate for communications used in that state only. If federal or state tax rates change, members may need to update their illustrations to be accurate and not misleading.
- Tax rates that reasonably reflect the tax brackets of the likely recipients of the communication must be used. Consideration must also be given to whether it is reasonable to assume that a customer would remain in the same tax bracket for extended periods of time (e.g., thirty years).
- Disclosure must be made that lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown. Customers should also be advised to consider their personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.
    - Our Advertising Principal will routinely review marketing communications to verify that (1) illustrations designed to show the comparative tax benefits of variable annuities are based upon tax rate and investment return assumptions that are consistent, fair and reasonable at all times while the communication is in use, and (2) the tax rate assumptions in such illustrations are accurate in all respects as of both the date the material is prepared and throughout the period during which the material is in use. Such illustrations must also fully and fairly disclose all underlying assumptions as well as the fact that changes in tax rates and tax treatment of investment earnings may impact the comparative results.
- Under Rule 2210, we are required to file with FINRA's Advertising/Investment Companies Regulation Department all variable life insurance advertisements and sales literature within 10 days of first use or publication. We will retain copies of all materials submitted to FINRA in a "Pending FINRA Comment" file. Upon receipt of the FINRA comment letter, it will be reviewed, and if no changes are required it will be attached to the appropriate advertising or sales material piece. If changes are required, we will include documentation of the changes in the "Approved Advertising/Sales Material" file, with the FINRA comment letter attached.
- We are also required to file the format for any hypothetical illustrations used in the promotion of variable life insurance policies, since these formats qualify as sales literature. Copies of all materials submitted to FINRA will be retained in a "Pending FINRA Comment" file. Upon receipt of the FINRA comment letter, it will be reviewed and if no changes are required, it will be attached to the appropriate advertising or sales material piece. If changes are required, we will include documentation of such changes in the "Approved Advertising/Sales Material" file, with the FINRA comment letter attached.
- All internal and off-site audits and reviews will ensure that this matter is covered and that any inappropriate advertising material is removed and no longer available for distribution.

- The designated principal must ensure that we have in place appropriate procedures to ensure compliance with the rule's filing requirements.

Cash and Non-Cash Compensation

Policy Requirements

FINRA Rule 2320 "Variable Contracts of an Insurance Company" reads: "In connection with the sale and distribution of variable contracts.. no associated person of a member firm shall accept any compensation from anyone other than the member with which the person is associated.

This rule does not prohibit arrangements where a non member company pays compensation directly to associated persons of this firm, provided that:

- This firm has agreed to the arrangement;
- This firm relies on an appropriate rule, regulation, interpretive release, interpretive letter or no-action letter issued by the SEC that applies to the specific situation of the arrangement;
- The receipt by associated persons of such compensation is treated as compensation received by this firm for purposes of the rules; and
- The recordkeeping requirement (under FINRA Rule 2320) is satisfied.

Permitted are:

- Gifts that do not exceed an annual amount per person fixed periodically by FINRA (currently $100) and are not preconditioned on achieving a sales target;
- An occasional meal, ticket to a sporting event/theatre, or comparable entertainment that is neither so frequent nor so extensive to raise any question of impropriety and is not preconditioned on achieving a sales target;
- Payment or reimbursement by offerors in connection with meetings held by the offeror or by this firm for the purpose of training or education, provided that the requirements of FINRA Rule 2320 are satisfied; and
- Non-cash compensation arrangements between this broker-dealer and its associated persons or a non-member company and its sales personnel who are associated persons or an affiliated member, provided that we comply with the requirements of FINRA Rule 2320.

Procedures and Documentation

Our CCO must ensure that we undertake reviews to uncover any inappropriate cash or non-cash compensation received by our registered personnel.

- We maintain copies of all required formal requests for receipt of cash or non-cash compensation, with the written response, either in the individual's personnel/Form U4 file or in another appropriate file.
- We maintain documentation of any permitted cash and non-cash compensation paid to our registered employees. Quarterly we will review this documentation.

- We will review any non-cash compensation arrangements to ensure consistency with the applicable requirements of Regulation Best Interest.
- We will maintain records of all compensation received by this firm or our associated persons from offerors.
- We are permitted under Rule 2320 to estimate the value of non-cash compensation for which a receipt (or other similar documentation) assigning a value is not available.
- Per 2320(c), we are not permitted to participate in the offering or 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 and applicable rules thereunder. Payments need not be considered as received until the contract application has been accepted by the insurance company, except that by agreement it may be considered to have been received for the risk of the purchaser when actually received.

Per 2320(d), upon receipt of applications and/or purchase payments for variable contracts we are required to transmit promptly to the issuer all such applications and at least that portion of the purchase payment required to be credited to the contract.

Life Settlements

Procedures and Documentation

Our CCO is responsible for sufficient surveillance to ensure that all transactions of variable products are suitable and in compliance with all the relevant rules and regulations and will review those annually.

Supervising principals overseeing life settlement transactions must ensure that risks such as (a) unexpected tax liabilities, (b) decreased access to insurance coverage, if needed, (c) the release of the individual's private medical information and (d) inclusion of all transaction-related costs are monitored.

Our CCO will ensure that all life settlements involving variable insurance policies have been handled as a securities transaction for documentation, indicating efforts to ensure suitability, due diligence, supervision and training.

Best execution will also be a focus of these reviews to ensure that reasonable diligence was utilized to ascertain the best market for the security and that the most favorable price possible was obtained, by reasonable efforts to gather bids from multiple licensed providers either directly, or through a life settlement broker. Any indication that there appears to be an exclusivity arrangement between an

associated person and a life settlement provider will be investigated as it would be inconsistent with our firm's best execution obligations.

Market Timing

Procedures and Documentation

Our CCO and supervising principals are responsible for detecting any instances of market timing through variable annuities being facilitated by any of our associated personnel.

On a quarterly basis, all VA transactions will be reviewed to detect any instances of sub-account changes and rapid purchases and sales of shares in variable annuities.

All accounts which share beneficial owners with a hedge fund or other market timers will be reviewed to determine if any VA transactions have occurred in one or more of their accounts, thereby facilitating market timing.

Issuers of variable annuity products with which we do business are requested to send notices concerning their desire to block or restrict certain clients from further market timing activities.

Prospectus and Contract Delivery

Procedures and Documentation

Because a prospectus provides information on the features, risks, investment options and structure of an investment, delivery of the prospectus is mandatory prior to, or at the time of, soliciting a specific investment. Clients should be advised to retain the prospectus for future reference.

Prior to applying to the insurance company, we must obtain, in writing, documentation verifying the customer's receipt of the prospectus and their understanding of early redemptions and the associated tax consequences and penalties thereof.

The supervising principal will review the customer verification (indicated by initials and date), ensuring that all appropriate disclosures have been made.

We have requested that insurance companies send all contracts to us for forwarding to the client. All contracts forwarded by us will use a mail delivery service which provides receipt notification (i.e., the date on which the "free look" provision begins).

We will maintain this documentation in each client's file, and have the files reviewed quarterly by our CCO or a specifically designated individual. We will take disciplinary action against individuals who do not appropriately obtain this required material, with continued failure to adhere to our policy in this regard resulting in termination.

In addition to supplying customers with a current prospectus and contract, discussions should take place which are balanced and cover potential risks as well as possible rewards. Costs must be discussed and

clients should be reminded that when investments are sold, contract values may be either higher or lower than when purchased.

Disclosure must also be made regarding the following.

- Sales charges
- Administrative expenses
- Mortality expenses
- Surrender periods and charges
- Sub-account options and investment management fees
- Death benefit features and amounts
- Long-term care features, if applicable
- Critical care features, if applicable
- Contingent deferred sales loads
- Variability of contract values - risk of loss of principal
- Policy premium lapse periods

Recommended Transactions

Procedures and Documentation

Principals given responsibility for reviewing, approving, or rejecting variable annuity purchases and exchanges must adhere to FINRA Rule 2330 requirements.

All variable annuity transactions (i.e., purchases and exchanges) will be reviewed quarterly to ensure full compliance with Rule 2330.

Non-recommended transactions deemed will be reviewed to ensure sufficient documentation exists to validate the claim that the transaction was not recommended to the investor.

We are permitted to hold the application and the customer's non-negotiable check, payable to an insurance company, for seven (7) business days without being in violation of any FINRA or SEC rules so long as the following conditions are present and sufficiently documented:

1. The reason that we are holding the application for a deferred variable annuity and/or a customer's non-negotiated check payable to a third party is to allow completion of principal review of the transaction pursuant to FINRA Rule 2330.
2. The associated person who recommended the purchase or exchange of the deferred variable annuity makes reasonable efforts to safeguard the check and to promptly forward a complete and correct copy of the application package to an OSJ.
3. The firm has policies and procedures in place that are reasonably designed to ensure that the check is safeguarded and that reasonable efforts are made to promptly forward a complete and correct copy of the application package to an OSJ.
4. A principal reviews and makes a determination of whether to approve or reject the purchase or exchange of the deferred variable annuity in accordance with the provisions of FINRA Rule 2330.

5. The firm holds the application and/or check no longer than seven business days from the date an OSJ receives a complete and correct copy of the application package.
6. The firm maintains a copy of each such check and creates a record of the date the check was received from the customer and the date the check was transmitted to the insurance company or returned to the customer.
7. The firm creates a record of the date when the OSJ receives a complete and correct copy of the application package.

Checks accompanying applications will be logged onto a separate Variable Annuity Checks Received/Disbursed Log, because they are the only checks that may be held by this broker-dealer longer than noon of the following business day. All checks must go to the issuer (in instances where principal approval is given) or be returned to the client (in case of rejected transactions) no later than noon of the seventh business day after the logged date of receipt of the complete and correct application at the appropriate OSJ. (See "Receipt of Checks Payable to a Third Party" regarding the handling of checks received for recommended variable transactions.)

All recommended variable annuity transactions must be reviewed, with the reviewing principal employing the highest level of suitability review. Prior to approval, we must have a reasonable basis to believe all of the following:

1. The customer has been informed, in general terms, of various features of deferred variable annuities, such as
    - Potential surrender period and surrender charge
    - Potential tax penalty if customers sell or redeem before reaching 59 1/2 years of age
    - Mortality and expense fees
    - Investment advisory fees
    - Potential charges for and features of riders
    - Insurance and investment components
    - Market risk
2. The customer would benefit from certain features of the product such as
    - Tax deferred growth, or
    - Annuitization, or
    - A death or living benefit
3. The particular deferred variable annuity (purchase or exchange) as a whole, the underlying sub accounts to which funds are allocated at the time of the purchase or exchange, and riders and similar product enhancements (if any) are all suitable.

Variable Exchanges

In the case of an exchange, there must be a reasonable basis to believe that it is consistent with the foregoing suitability determinations, also taking into account whether

1. The customer would incur a surrender charge, to be subject to the commencement of a new surrender period, lost 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),

2. The customer would benefit from product enhancements and improvements, and
3. The customer's account has had another deferred variable annuity exchange within the preceding 36 months

All multi-class VA transactions are captured on our internal exception reports and will require immediate review to ascertain that the documentation indicates the appropriate level of suitability along with client disclosures.

Principal Deems Transaction Not Suitable

When a principal determines that a recommended variable annuity transaction is not suitable, he or she may authorize the processing of the transaction if the transaction was not recommended and if, after being informed of the reason why the principal has not approved the transaction, the customer affirms in writing that he or she wants to proceed with the purchase or exchange.

Multi-Class Variable Annuities / L Share Variable Annuities

Due to specific riders impacting, among other potential suitability considerations, surrender fees, expense fees and surrender periods, we will take utmost precautions when approving any recommended multi-class / L share VA transactions.

A client's investment time horizon must be considered. Clients who purchase L share VAs should not have a long term time horizon not in the account established for that VA purchase (remember, clients may have different investor profiles for different accounts).

Transaction approval must include documentation that the client is able to sustain the higher fee structure. Long-term riders cannot be recommended with the shorter-term L share VAs. All available shares classes should be compared in light of the investor's profile to make sure they are making appropriate recommendations. We must also meet the obligations of Regulation Best Interest.

All multi-class VA transactions are captured on our internal exception reports and will require immediate review to ascertain that the documentation indicates the appropriate level of suitability along with client disclosures.

Documentation

Records must be maintained indicating:

-The scope of each review undertaken by the principal, signed by the principal

-Rationale used to approve or reject the transaction, signed by the principal

-In the case of a rejection, proof that the client was advised why the transaction was deemed to be unsuitable, signed by the principal

-In instances where a rejected transaction was processed, proof of client affirmation that they wanted to proceed, signed by the client

Sales in Tax-Qualified Plans

Procedures and Documentation

Our CCO will undertake appropriate surveillance activities to ensure that all transactions of variable products are suitable and in compliance with all relevant rules and regulations, and to detect and deter any transactions that are not in compliance.

Our designated supervising principals are responsible for the ongoing oversight of the day-to-day activities of the individuals for whom they have immediate supervision and for overseeing all activities related to variable product transactions, including that all individuals are fully aware of the rules, regulations and regulatory concerns surrounding this product.

It is the responsibility, of our CCO and all designated supervising principals, to ensure that each individual involved in variable product transactions thoroughly understands the tax-deferral features and benefits with the product.

Variable products sold in tax-qualified plans, such as an IRA account or 401(k) plan, do not provide any additional tax-deferred benefits beyond the tax treatment provided by the tax-qualified retirement plan itself.

Disclosure must be made to any client purchasing a variable product in a tax-qualified plan that tax-deferral feature provided by the variable product is unnecessary. In addition, we must disclose any specific costs being paid by the customer for inclusion of the variable product's tax deferral feature.

Such disclosure must be in writing, signed by the client and the appropriate registered individual, and approved by the designated supervising principal, before such transaction can be approved.

Switching/Replacements/Twisting

Procedures and Documentation

Our CCO must ensure that sufficient surveillance activities are in place to detect any transactions of variable products which are unsuitable and not in compliance with all the relevant rules and regulations.

The replacement of variable life insurance and annuity contracts, especially within the same company, is an issue of great concern with the regulators.

Replacements may only occur after careful review to ensure that the proposed transaction is in the best interest of the customer.

Generally, replacements occur where a new policy is funded, either totally or in part, from another life or annuity policy through a lapse, surrender, use of non-forfeiture options or an insurance policy loan or financing (i.e., the use of an existing policy's cash value to purchase a new contract). Replacements also vary in definition from state-to-state, and it is up to the individual servicing the account and his or her supervising principal to know the replacement rules in the state in which it occurs. In each case, should a

replacement occur, the replacement box on the application must be marked “Yes,” regardless of whether the particular state requires a replacement form.

Twisting is another term for churning, exchanging, etc., indicating a fraudulent activity where a client is pressured to sell out of one insurance product and buy into another solely for the purpose of the representative receiving an additional commission. An example of twisting is convincing a client to use a portion of the cash value in an existing policy to purchase another policy. Another example would be convincing an individual to surrender an old policy in exchange for a new policy by providing misleading information on the new policy, such as neglecting to note that the new policy may not be as beneficial to the customer as the old policy, or that the customer may lose benefits such as cash values that have accrued under the old policy. Such activity is fraudulent and is not tolerated by this firm. All variable exchanges will be reviewed for twisting, in addition to, suitability and appropriateness of the transaction.

Employees may not conduct any sales activities involving contacting former or current clients for the purpose of having them replace their existing coverage, unless the transactions are clearly advantageous to the client, in which case appropriate due diligence and analytic notes must be made and retained in the file to document the rationale to go forward. If a complaint is received by this firm regarding a replacement or a switch, documentation of a thorough analysis of the client’s needs, an appropriately documented suitability determination and proof that the customer understood the costs and risks of the change must be made.

Failure to appropriately document all replacements/switches will result in the forfeiture of all related commissions, and may result in additional internal disciplinary actions. If any policy-value adjustments are required, all such adjustment costs will be charged to the representative. We will maintain documentation regarding any such instances in the files, including client name and account number, registered personnel involved, corrective measures undertaken, and documentation concerning any internal disciplinary actions taken.

Our CCO will monitor all switches/replacements closely, on a case-by-case basis, and unless all the documentation and appropriate rationale exists (as required under FINRA Rule 2330), the transaction will undergo an in-depth review to determine suitability.

Switching transactions are difficult to justify if the financial gain or investment objective to be achieved by the transaction is undermined by sales charges, surrender charges and/or potential tax consequences. All such sales charges, new investment charges and potential tax consequences must be brought to the attention of the client by the representative, as required under Rule 2330.

Training Overview

Policy Requirements

FINRA Rule 2330 requires that broker-dealers develop training which will ensure that all associated personnel engaged in the purchase or exchange of deferred variable annuity transactions, and the

supervisory principal who will review and either accept or reject such transactions, are aware of the requirements of that Rule, that they fully understand the products being sold or exchanged, and understand how to determine suitability.

Procedures and Documentation

Our CCO will work with all appropriate Senior Management and supervising principals, and outside experts if necessary, to develop a training program which will ensure that all associated personnel engaged in deferred variable annuity transactions (i.e., purchases and exchanges) are fully aware of all the associated features and costs of those specific variable annuity products offered to our customers, including, but will not necessarily be limited to; surrender charges, premium and cash value charges, separate account charges, underlying fund fees, subaccount investment options, loan provisions, free-look periods, and policy premium lapse periods. The training must be developed in such a way as to ensure a level of understanding that will allow our associated personnel to clearly convey relevant information to the customer in order for him or her to make an informed investment decision regarding the recommendation.

Unregistered Equity-Indexed Annuities

Policy Requirements

Section 2(a)(1) of the Securities Act defines a "security" and Section 3(a)(8) exempts from the Securities Act any security that is an “insurance or endowment policy or annuity contract or optional annuity contract, issued by a corporation subject to the supervision of the insurance commissioner, bank commissioner, or any agency or officer performing like functions, of any state or territory of the United States or the District of Columbia.”

Rule 151 under the Securities Act offers a safe harbor, clarifying when certain annuity contracts are exempted securities under Section 3(a)(8). As stated in Notice to Members 05-50, *“The fundamental construct of Rule 151 is derived from prior judicial interpretations of Section 3(a)(8). Consequently, the SEC has stated that the rationale underlying the conditions set forth in the rule are, along with applicable judicial interpretations, relevant to any Section 3(a)(8) analysis. (Securities Act Release No. 6645, 35 SEC Docket 952, May 29, 1986, adopting Rule 151).” Notice to Members 05-50 continues, “In order for the Rule 151 safe harbor to apply, the product must be issued by an insurer that is subject to state insurance regulation; the insurer must assume investment risk, as provided in paragraph (b) of the rule; and the product may not be marketed primarily as an investment.”*

Procedures and Documentation

Our CCO will ensure that we have appropriate policies and procedures in place so transactions of equity indexed annuities (EIAs) are not treated as outside business activities (FINRA Rule 3270) or private securities transactions (FINRA Rule 3280) but occur through this broker-dealer, regardless of whether the EIA is deemed to be registered or exempt from registration.

Our CCO will ensure that all individuals engaged in insurance-related products and their supervisors are given access (either online or hardcopy) to Notice to Members 05-50. Our CCO will retain documentation of who received this Notice to Members and the date on which they received it.

Our CCO must ensure that our Continuing Education and Firm Element Training Program offers sufficient education concerning issues surrounding the sale of equity indexed annuities to those who may be involved in such transactions.

All registered personnel are advised, in writing, that sales of equity indexed annuities are not treated as either outside business activities (FINRA Rule 3270) nor as private securities transactions (FINRA Rule 3280). All sales of unregistered EIAs must occur through this broker-dealer.

Our CCO must maintain a list of all acceptable unregistered EIAs and distribute the list to all appropriate personnel. In addition, all registered personnel and their immediate supervisors must be advised that they are prohibited from selling any EIA not on the list unless they notify Compliance, in writing, and receive written confirmation from Compliance that the sale of the requested unregistered EIA is acceptable.

All EIA transactions are supervised for marketing materials, suitability analyses (including possible surrender charges and the combination of caps and participation rates associated with a product) and other sales practice issues associated with the recommendation of unregistered EIAs in the same manner as all other securities transactions are supervised and overseen.

Annually, our CCO will ensure that all EIA transactions are reviewed to verify that we adhere to our policies and procedures and that there is a complete understanding of the issues surrounding EIAs.