L.M. Kohn & Company

Broker-Dealer Written Supervisory Policies And Procedures Manual

February 1, 2024

Table of Contents

Introduction

Background

L.M. Kohn & Company Compliance Department, headed by Mike Bell, is responsible for the issuance and dissemination of all policies, procedures and directives put into place to govern the conduct of this firm and its registered employees. Our Compliance Department is responsible for ensuring that all new regulatory requirements are put into place and are responsible for maintaining these Written Supervisory Policies and Procedures ("WSPs") in a current manner. Compliance is responsible for disseminating information required for associated personnel to conduct their business in a manner that encompasses all laws, rule, regulations and interpretations.

Management may, at its discretion, impose stricter standards of conduct than what is generally required by the regulators or what is indicated herein or in any additional Compliance or Operational Manuals being utilized. Compliance policies and procedures are issued in order to ensure that all employees maintain high standards of ethical conduct and fair principles of trade.

Directives concerning Compliance and/or Supervisory Policies and Procedures will be issued any time an activity is discovered which is to be immediately ceased or an unacceptable course of conduct is uncovered. Failure to heed any such directives or communications will result in various disciplinary actions, including possible termination.

As it is not possible for these Written Supervisory Policies and Procedures to address every possible circumstance which may arise or the entirety of the regulatory structure under which we transact our business, we expect all associated personnel to be as thoroughly familiar as possible with any and all regulations applicable to their activities. We will look to our Compliance Department for guidance in this area. More importantly, however, is that we instill throughout the firm a willingness to seek guidance and assistance from senior management, supervisory personnel and the Compliance Department with respect to any questions not adequately addressed by these Written Supervisory Policies and Procedures, or any supplements or directives.

The duty of a broker/dealer to maintain and enforce adequate standards of supervision extends to every aspect of its activities. Customers dealing with L.M. Kohn & Company are entitled to be confident that they are being treated fairly. They should be able to rely upon the firm having systems of supervision and internal control, providing safeguards against inadvertent violation of laws, rules and regulations, most particularly against those employees who may be tempted to engage in improper or fraudulent conduct.

The SEC has stated that *"….where the failure of a securities firm and its responsible personnel to maintain and diligently enforce a proper system of supervision and internal control results in the perpetration of fraud upon a customer or in other misconduct in willful violation of the Securities Act or the Exchange Act, for purposes of applying the sanctions provided under the securities laws, such failure constitutes participation in such misconduct, and willful violations are committed not only by the person who performed the misconduct but also by those who did not properly perform their duty to prevent it."*

L.M. Kohn & Company intends not only to meet all the regulatory requirements, but to exceed both the letter and the spirit of the law.

It is required that all registered employees be given appropriate guidance in how to familiarize themselves with FINRA's Conduct Rules (available by request from the Compliance Department) so as to be aware of what is required, what is considered "Fair Practice" and what is not. The Compliance Department, working with all Supervisory Principals, is responsible for ensuring that such awareness is an integral part of any registered employee’s job.

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.

Firms with a Significant History of Misconduct

Procedures and Documentation

If our firm is identified as a "Restricted Firm" by FINRA, our Compliance Department will maintain books and records evidencing our compliance with Rule 4111 and establish a "Restricted Deposit Account" in the name of our firm at a bank or our clearing firm. The account must be subject to an agreement in which the bank or the clearing firm agrees:

- not to permit withdrawals from the account absent FINRA's prior written consent;
- to keep the account separate from any other accounts maintained by our firm with the bank or clearing firm;
- that the cash or qualified securities on deposit will not be used directly or indirectly as security for a loan to our firm by the bank or the clearing firm, and will not be subject to any set-off, right, charge, security interest, lien, or claim of any kind in favor of the bank, clearing firm or any person claiming through the bank or clearing firm;
- that if our firm becomes a former member of FINRA, the assets deposited in the Restricted Deposit Account to satisfy the Restricted Deposit Requirement shall be kept in the Restricted Deposit Account, and withdrawals will not be permitted without FINRA's prior written consent;
- that FINRA is a third-party beneficiary to the agreement; and
- that the agreement may not be amended without FINRA's prior written consent.

A member or Former Member that is a Restricted Firm in one year, but does not meet the Preliminary Criteria for Identification or is not designated as a Restricted Firm the following year(s), shall no longer be subject to any deposit requirement, conditions, or restrictions previously imposed on it under this Rule; provided, however, the member or Former Member shall not be permitted to withdraw any

portion of its Restricted Deposit Requirement without submitting an application and obtaining the prior written consent of the Department.

The Compliance Department will maintain books and records that evidence our compliance with Rule 4111 and any Restricted Deposit Requirement or other conditions or restrictions imposed under the rule.

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 principals 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

Procedure

CCO is responsible for ensuring that a meeting with the President is held, minimally once during the 12 months preceding the Certification, such meeting or meetings to include:

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

In addition, Compliance is responsible for maintaining the following records:

- Dates of all such meetings, lists of attendees, copies of agendas and any other relevant materials, as well as notes pertaining to all discussion areas, will be maintained by Compliance and the principal designated as having responsibility for preparation of the Certification report.
- Documentation as to whom the report was distributed to will also be retained, along with any documentation as to any written or oral comments made in return.
- Copies of all reports and each annual President's Certification will be maintained.

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, the President and/or CCO, 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 President 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, but must include the following:

The undersigned is the President (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 timing 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 a 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.*

- OR -

5. *While the undersigned CEO/President is also the CCO, consultation has taken place with other appropriate officers, employees, outside consultants, lawyers or other individuals to the extent deemed appropriate and/or necessary, in order to attest to the statements made in this certification.*

Certification Report Requirements

Mike Bell will produce an annual report prior to the President's 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 President's certification.

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

Comparison with Government Lists

L.M. Kohn & Company's CIP requires the check of all new accounts for OFAC List matches at the time of account opening, or within a reasonable period of time afterwards. As a result, L.M. Kohn & Company conducts an OFAC check in coordination with the opening of every newly established account.

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.

At least annually, our AML Principal, 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.

AML Principal will ensure that our Annual Compliance Meeting addresses this issue.

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

Each OSJ has a resident principal responsible for supervision.

LM Kohn & Company 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

Procedure

Compliance will create and maintain a list of all off-site locations where there are individuals transacting business on behalf of this broker/dealer, indicating into which category each falls: (a) OSJ, (b) Supervisory Branch Office, (c) Branch Office, (d) Exempt from Branch Office Registration.

L.M. Kohn & Company does not have any branch locations where the sole activity is final approval of research reports; which are exempt from being designated as an OSJ.

Form BR filings are to be made for all off-site locations falling into (a), (b) or (c) above and for maintaining copies of all Form BR filings.

Compliance will review, minimally on an annual basis, all off-site locations to make a determination as to whether any of the currently exempt locations have begun to function in such a manner as to require Form BR registration. Documentation as to such reviews will be maintained by Compliance indicating date of review, scope of review, findings and actions taken.

Compliance will review for which states are:

- "Branch Registration Regulators" (requiring state approval before a branch can conduct business in their state), which are
- "Branch Notice Filing Regulators" (do not require they give approval prior to opening a branch in their jurisdiction and only need to be notified of a branch opening via a Form BR filing)
- not currently participating in the WebCRD branch office program and need to be contacted directly to determine what actions they require prior to opening a branch in their jurisdiction

Compliance will ensure that associated persons amend all existing Form U-4s to reflect:

- whether or not the individual is an Independent Contractor

- the office of the individual's employment address (either a registered branch location or a non-registered employment location)
- the office from which the individual is supervised (if not the same as the individual's physical location)
- disclosure of multiple offices of employment

Office Inspection Requirements

Responsibility

The individual responsible for ensuring that all office locations (including our home office) receive the correct designation (OSJ, Supervisory Branch, branch or non-branch branch) and that each audit / review time frame is met, as well as for ensuring that those individuals assigned to carry out each location's audit / review are (a) qualified and (b) acceptable under FINRA rules is our CCO.

Offices of Supervisory Jurisdiction ("OSJs") and "Supervisory Branch Offices:"
Our home office is determined to be L.M. Kohn & Company, 10151 Carver Road, Suite 100, Cincinnati, OH 45242

The two identified home office principals supervise all existing OSJ's are Robert Chess and Mike Bell. Each RR is assigned an OSJ for supervision. Robert Chess and Mike Bell conduct cumulative and redundant supervision for every RR associated with the firm.

Branch Audits

Every branch is audited (according to the timeframes listed below) with a complete audit checklist covering their branch business practices as well as their supervision of their assigned RRs (if applicable). The branch examiner reviews (prior to) and discusses during the audit several items including, but not limited to: Net and YTD Unrealized Total Gain/Loss, Margin Equity %, Commissions, RMDs, Advertising, Complaints, Production, etc. A reasonable number of surprise audits must be conducted as well. An exit review is followed by a post audit letter highlighting deficiencies, best practices or other items of pertinence.

- All OSJs are audited annually (minimum).
- All RRs (PIC offices) are audited every three years (minimum).
- All branches under a Financial Institution Networking agreement (e.g., banks) are audited annually (minimum).
- All other RRs not falling in the above defined categories will be audited every three years (minimum).

Amount of prior deficiencies and/or severity of deficiencies and/or disciplinary action(s) and/or heightened supervision would be factors leading to an increase in audit frequency for associated branches.

Individuals Restricted from Conducting Branch Office Reviews: Regardless of "type" of branch, office inspections have the following restrictions as to who may or may not conduct an office inspection:
(a) A branch office manager may not conduct a review of the office he or she manages
(b) Any person within a branch who has any supervising responsibilities relating to the branch may not conduct a review of that branch
(c) Any individual directly or indirectly supervised by (a) or (b) above may not conduct the branch inspection for the office in which (a) or (b) above are housed

Individuals utilized to undertake these office inspections need not be registered principals, so long as they meet the above criteria.

Limited Size and Resources Exemption Regarding Branch Office Review Personnel Restrictions Under FINRA Rule 3010(c)(3): In instances where the only individuals available (due to limited personnel) to do branch inspections fall under (a), (b) or (c) above, the inspections may be undertaken by a sufficiently qualified and experienced licensed principal of the broker/dealer.

If the limited size and resource exemption is being utilized, written documentation must be contained within each particular office inspection report describing the facts surrounding the determination to rely on the limited size and resource exception.

Heightened Inspection Requirements: FINRA Rule 3010(c)(3) requires us to have procedures in place that are reasonably designed to provide heightened office inspections if the following two conditions are met:
(a) If an individual conducting a branch inspection either reports to or works in the same office as a branch manager, and
(b) The branch office manager *"generates twenty percent (20%) or more of the revenue of the business unit or units supervised by the branch office manager's supervisor."* (In other words, if the supervisor of the branch office manager also supervises the business unit or units for which the branch office manager generates 20% or more of the total revenue, heightened inspections would be required. If the manager's supervisor <u>does not also</u> supervise the business unit, the heightened inspection requirements would not apply.)

We must calculate the 20% threshold on a rolling (prior) twelve-month basis.

Identifying Branch Offices Requiring Heightened Inspections: Our CCO, in partnership with senior management, will at all times maintain a list of all branch locations which fall under the "heightened inspection" category.

Heightened Inspection Elements: From FINRA Notice to Members 04-71, the term "heightened inspection" means those inspection procedures that are designed to *"avoid conflicts of interest that serve to undermine complete and effective inspections because of the economic, commercial or financial interests that the branch manager holds in the associated persons and businesses being inspected."*

We will determine, based on a number of issues (such as history and amount of disciplinary action, history and amount of deficiencies, business conducted, prior history of producing managers, amount of accounts serviced, etc.) all the elements included in how we structure our heightened inspection efforts.

All heightened inspections will include any number of the following elements, along with any other heightened inspection procedures that we deem appropriate:

- Surprise inspections
- Increased frequency of inspections
- Broader scope of activities reviewed
- Increased "sampling" amount
- "Mystery" shopping
- Making arrangements for "eavesdropping" on branch manager phone calls
- Requiring one or more principals to review and approve the office inspections

Procedure

Should we determine that any branch location requires heightened supervision, we will maintain a list of all such identified locations, along with details of what such heightened inspections will consist of. The list will be reviewed quarterly to determine whether any location no longer requires heightened inspections, and other locations will be reviewed to determine whether they should be added to the list.

All audit/review activities will result in a report maintained in the firm's audit/review files. The senior supervisor conducting the audit/review will maintain these reports, and working with all applicable individuals, will take corrective measures (where required) based on the reports.

The dates of the audit/review and the names of the individuals conducting the review will be included with each report.

The senior supervisor conducting the audit/review is responsible for following-up on all suggested corrective and remedial actions to ensure that they have been put into place or that other alternative measures have been taken.

Our CCO is responsible for determining whether a particular branch location's next audit/review date should be moved up, whether to undertake a surprise inspection, or any other proactive compliance measures deemed appropriate based on the report.

Our CCO will maintain lists of those individuals who are permitted to undertake branch office inspections for the particular branches and review the list on a quarterly basis to ensure no changes have occurred that may require the list to be amended. The CCO will amend the list when necessary.

Remote Inspections

In time periods where FINRA allows remote inspections (e.g., due to COVID-19 activity by region), L.M. Kohn & Company may utilize remote inspections when onsite visits are not appropriate for their audits and do so via video conference meetings. All registered representatives of the OSJ will be required to be present and visible during the audits. Additionally, the surroundings within the OSJ will need to be visible through the firm approved video conferencing software being used in order to satisfy the verification requirements related to the items listed on the audit checklist (signage, disclosures, etc.). The information from the video conference meetings, along with all associated pre-audit and post-

audit related documents, must be archived in the firm's secure centralized electronic storage system for a period of no less than six years.

We will determine, based on the number and severity of issues found, whether additional heightened inspection efforts will be needed. As mentioned previously in this section, these heightened inspection efforts may (as deemed appropriate) include, but are not limited to the following:

- Surprise inspections;
- Increased frequency of inspections;
- Broader scope of activities reviewed;
- Increased "sampling" amount;
- Making arrangements for "eavesdropping" on branch manager phone calls; and
- Additional principal review and approval of office inspections.

Designation of Key Personnel

Responsibility

FINRA Rule 3130 requires that broker/dealers at all times have a designated Chief Compliance Officer ("CCO") and that appropriate disclosure is made to the FINRA identifying this individual.

Mike Bell, CRD# 2183320 is our CCO.

Procedure

To be in compliance with FINRA Rule 3130, Senior Management must ensure that a principal of this broker-dealer is designated as our CCO and that such individual is disclosed on our Form BD.

To amend the name of the individual, should it change at any time, the following will occur.

- We will annually review our Form BD (as printed off WebCRD) to ensure that the appropriate individual is disclosed as our CCO. If an amendment is required, it will be made at that time, with all documentation of the Form BD amendment retained in our Form BD Amendment file. We will maintain evidence of these annual reviews, including each reviewed document initialed and dated by the individual who undertook the review, and documentation of any further action taken if required.
- At least annually, we will review the FINRA Contact System (FCS) on FINRA's website to ensure that the name of our CCO is appropriately disclosed and amended when necessary. We will maintain documentation of such review, including a printout of the information on the FCS that was reviewed, appropriately initialed and dated, indicating whether any change was required. If change was required, evidence documenting the change will be maintained.

- We will also ensure during each annual review that any other FINRA-required disclosure locations are current, evidencing this review in the same manner as indicated above.

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

The Compliance Department 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

The Compliance Department 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.

The Compliance Department 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.

FINRA Report Center

Policy Requirements

FINRA Report Center makes the following reports available:

- 4530 Disclosure Timeliness Report Card;
- Equity Report Cards;
    - Firm Summary Scorecard;
    - 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.

All Form BD amendments will be made on WebCRD, printed out, appropriately signed, and maintained. LM Kohn & Company 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

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.

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

Procedures and Documentation

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

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

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

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.

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

Foreign Corrupt Practices Act (FCPA)

Procedure

While we do fall under the "domestic concern" category, we do not, in any manner, deal with foreign individuals or entities.

Based on this determination, therefore, other than general training and education covering the issue of bribery, and the ramifications of being involved in any manner, we have not put any FCPA oversight policies and procedures into effect. Should it at any time be determined that we will, or have become, involved with foreign individuals or entities (or if we become deemed to fall under other FCPA "categories," will we immediately put appropriate oversight policies and procedures into effect.

Outsourcing Activities to Third-Party Service Providers

Procedures and Documentation

The firm will:

- Convey the identity and responsibilities of each third-party, and maintain all third-party outsourcing contracts and/or agreements in our files;
- will perform periodic reviews of third-party vendors;
- will supervise and monitor the service provider's performance of covered activities;
- Review our outsourcing arrangements to determine whether they continue to be appropriate based on their performance; and
- help 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.

Securities Activities on the Premises of Financial Institutions

Procedures and Documentation

Prior to opening a branch on the premise of a financial institution, we will institute procedures to ensure that each investor understands the distinctions between bank products and securities products offered and sold by a broker-dealer on bank premises. Clients will also be given full disclosure of the risks associated with such non-deposit investment products.

Notice to Members 93-87 lists guidelines for meeting broker-dealer obligations when marketing mutual funds as replacements for maturing certificates of deposits. We may not offer such replacements

without first determining that all guidelines under Notice to Members 93-87 have been met, or without a discussion with an appropriate designated supervising principal.

At least annually, we will review each branch office maintained on the premises of a financial institution. If the review identifies compliance problems, the branch may be immediately closed and remain closed until all requirements for compliance have been met.

We must ensure that we exercise full supervisory responsibility over any "dual" employees (i.e., individuals employed by both the bank and by this broker-dealer), and review to verify this supervisory oversight. We will maintain documentation of all findings.

Furthermore:

- Financial institution personnel who are not ALSO registered representatives of this broker-dealer are NOT permitted to make an investment recommendation;
- All broker-dealer customer communications, confirmations and account statements must be sent to the client by the broker-dealer with an indication that brokerage services are provided by the broker-dealer and not by the financial institution; and
- Unregistered employees of the bank may provide only clerical services; they may not under any circumstances handle securities matters.

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. CCO at least annually will ensure that we conduct and document a test of our procedures.

Annual Compliance Meeting

Responsibility

Our CCO will ensure that a meeting is held at least annually that each registered employee of this firm must attend pursuant to FINRA Rule 3110(a)7. Our CCO must ensure that each individual required to attend this meeting is given sufficient notice of the date to clear his/her calendar. Special training in lieu of attending the annual compliance meeting will be made available in special circumstances determined by the CCO. We may conduct on site compliance meetings at branch offices locations, at the direction of the CCO.

Designated supervising principals may be directed by Compliance to hold the actual meetings and, in such instances, must maintain appropriate documentation to evidence compliance.

Procedure

At each annual compliance meeting, all registered employees will be required to make attestations concerning

- 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
- Insider Trading Safeguard Statement
- Selling Away Statement
- Disclosure of any existing loans between the registered individual and a customer

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

Our firm will ensure that upon being hired, and annually thereafter, each employee will receive written notification concerning our electronic communications policies and procedures, a list of permissible electronic communication mechanisms and potential disciplinary consequences for noncompliance. An attestation that such notification was received, and understood, will be required of each new hire, and annually thereafter at our annual compliance meeting.

We will also discuss products (i.e., suitability, tax implications, liquidity, market impact, required disclosures, etc.) at these meetings.

Suspicious activities beyond money laundering and terrorist financing (see BANK SECRECY ACT (BSA) FORM SAR-SF: Requirements Beyond Money Laundering Activities section in these WSPs) will also be addressed.

Documentation

We will 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 anyone's inability to attend the regularly scheduled meeting, including a written statement to his or her direct supervising principal and a written response to the date of the rescheduled make-up session
- Documentation, also forwarded to Compliance, concerning any individual who failed to attend a scheduled make-up session, as well as notations regarding any corrective action required (i.e., attendance at another make-up session, temporary suspension until the Annual Compliance Meeting attendance has been satisfied, etc.)

Electronic Conferencing of Meetings

Notice to Members 98-18 states that we may hold the required Annual Compliance Meeting via video conference, interactive classroom setting or other electronic means. If we determine that it is beneficial to hold any portion, or all, of our Annual Compliance Meetings in one of these settings, our CCO will determine that

- Those in attendance at the meeting are able to hear the presenters
- Attendees are able to ask questions and engage in dialogue with the presenters
- A proctoring method exists to assure that any representatives scheduled to attend actually do so, and that they remain for the entire conference

We 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
- The means by which the conference was proctored to ensure that representatives required to be in attendance did, in fact, attend and remain for the designated period of time

Designation of Supervising Principal

Procedures and Documentation

- CCO 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.

- CCO will also:

- assign each registered individual to an appropriate designated supervising principal;
- ensure that each registered individual is aware of the principal to whom they have been assigned; and
- update the list as new individuals are hired or terminated, and any change in the designated Supervising principal for any reason.

Qualifications of Supervising Principals

CCO 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.

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

CCO 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.

CCO 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

Responsibility

All supervisors responsible for overseeing transaction reviews and review of correspondence are responsible for being fully aware of what, if any, risk-based review procedures we are using and to ensuring that such procedures are full adhered to. Outgoing written (non-electronic) correspondence is approved prior to use which in itself mitigates risk. For all securities related electronic (e-mail) correspondence; our risk based reviews are triggered by key word/key phrase searched on our Global Relay platform. There are numerous key word and phrases that trigger an automatic review, which include but are not limited to the following: blame; complaint; fraud; front running; guarantee; insider trading; market timing; never authorized; no risk; not released yet; rumor; sorry; sure thing; tip; window of opportunity; without consent; etc.

Procedure

The Compliance Department, along with senior management, is responsible for reviewing and updating risk-based review procedures, along with key words and phrases that are to be flagged in the Global Relay system. These reviews take place periodically (minimally on an annual basis) to help ensure the effectiveness, appropriateness, and timeliness of the overall electronic communications review process.

Supervising Principals

Supervising Principals

We have designated supervising principals who have firm-wide responsibility ensuring compliance in specific business areas. Senior Management will help to 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**		
Advertising Review	Robert Chess (Director of Supervision)/Mike Bell (CCO)		
AML Program	Mike Bell & Robert Chess		
Arbitration	Carl R. Hollister		

	(President)		
Branch Audits / Reviews	Carl R. Hollister/Mike Bell/ Robert Chess		
Business Continuity Plan	Larry M. Kohn (CEO)/ Timothy J. Schwiebert (CIO)/ Carl R. Hollister (President)/Mike Bell (CCO)		
Change in Control / Business Ops	Carl R. Hollister		
Complaint Filing	Mike Bell		
Continuing Education	Robert Chess/Mike Bell		
Firm Element	Robert Chess/Mike Bell		
Regulatory Element	Robert Chess/Mike Bell		
Designated Executive Representative	Larry M. Kohn		
Designation of Supervisory Principals	Carl R. Hollister		
Financial Books and	Larry M. Kohn		

Records			
Financial Filings	Larry M. Kohn		
Form Filings (FINRA) – as applicable:			
Complaints	Mike Bell		
FOCUS	Larry M. Kohn		
Reg T	Larry M. Kohn		
Short Interest Reporting	Carl R. Hollister		
Blue Sheets	Carl R. Hollister		
Insite	Carl R. Hollister		
Internal Audits / Reviews	Carl R. Hollister/Mike Bell		
Insider Trading Safeguards	Carl R. Hollister/Mike Bell		
Licensing and Registration	Larry M. Kohn		
Municipals	Carl R. Hollister		
Options	Carl R. Hollister		
Private Placements	N/A		
Variable Annuities	Larry M. Kohn		
Pre-Hire Requirements	Carl R. Hollister/Mike Bell		
Privacy (Reg S-P)	Carl R. Hollister/Mike		

	Bell		
Product Approval	Carl R. Hollister		
Regulatory Payments	Larry M. Kohn		
Regulatory Report Retention	Carl R. Hollister/Mike Bell		
Research	N/A		
Risk Management	Larry M. Kohn		
Safekeeping / Segregation of Securities	Larry M. Kohn		
Supervisory Structure Review	Carl R. Hollister		
Trade Reporting	Carl R. Hollister		
Training of Personnel	Carl R. Hollister/Mike Bell/Robert Chess		
WSP Review and Amending	Mike Bell/Carl R. Hollister/Robert Chess		
Amended WSP Dissemination	Mike Bell/Carl R. Hollister		

Test and Verify Procedures

1. Mike Bell, 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).

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

The Compliance Department 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;
- 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;
- Deliver the amended relationship summaries which includes the most recent changes;
- 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 L.M. Kohn (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;
- Deliver the relationship summary within 30 days upon an investor's request; and
- The firm will ensure the additional disclosure document is provided to clients, as well, for more in depth information to comply with Regulation Best Interest.

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.

Care, skill and costs are new express elements for consideration when making recommendations to retail customers.

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

Depending on the facts and circumstances, a more expensive security or investment strategy may be recommended if there are other factors about the product or strategy that reasonably allows the firm to

believe it is in the best interest of the retail customer, based on that retail customer's investment profile.

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.

Reg BI incorporates FINRA's quantitative suitability obligation (that a series of recommended transactions are appropriate and not excessive). However, in a change from FINRA's quantitative suitability obligation, Reg BI applies the best interest standard to a series of recommended transactions, irrespective of whether the broker-dealer exercises actual or de facto control over a customer's account.

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.

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.

Explicit/Implicit Hold Recommendations

Reg BI imposes no duty to monitor a customer's account following a recommendation. However, if a broker-dealer agrees to perform account monitoring services, it must review and make recommendations regarding the account (e.g., to buy, sell or hold) on the specified, periodic basis that was agreed to with the retail customer. In such circumstances, Reg BI would apply even where the broker-dealer remains silent (i.e., an implicit hold recommendation).

Any explicit recommendation made to a retail customer as a result of any such voluntary review would be subject to Regulation Best Interest. For accounts where there is agreed-upon account monitoring, but no recommendations are made during the periodic review, it would constitute an implicit "hold" recommendation and would also be subject to Regulation Best Interest. However, absent an agreement to monitor an account, Regulation Best Interest would not apply to implicit hold recommendations.

Procedures and Documentation

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

- L.M. Kohn prohibits 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 L.M. Kohn brokers;
- Compensation to the Registered Representative does not vary by product;
- 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;

- We do not use the term "advisor" or "adviser" unless we are a registered investment adviser, a registered municipal advisor, a registered commodity trading advisor or an advisor to a special entity;

- 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 and frequency of services to be provided, whether or not account monitoring services will be provided, any requirements for retail customers to open or maintain an account or establish a relationship, any material limitations on the securities or investment strategies involving securities that may be recommended to the customer, the general basis for the recommendation, the risks associated with the recommendation, and all material facts relating to any conflict of interest associated with the recommendation that might incline us to make a recommendation that is not disinterested;

- We will consider reasonably available alternatives in determining whether there is a reasonable basis for making a recommendation;

    - With account type recommendations, we will consider the following factors:

    - the services and products provided in the account;

    - the projected cost to the retail customer of the account;

    - alternative account types available;

    - the services requested by the retail customer; and

    - the retail customer's investment profile;

- When making recommendations to open an IRA, or to roll over assets into an IRA, we will consider a variety of factors including, but not limited to:
    - fees and expenses;
    - level of services available;
    - available investment options;
    - ability to take penalty-free withdrawals;

    - application of required minimum distributions;
    - protections from creditors and legal judgments;
    - holdings of employer stock; and
    - any special features of the existing account;
- L.M. Kohn 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; involve higher compensating products; 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 other rewards for the sale of 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;
- Deliver updated disclosures to clients as soon as reasonably practicable;
- All individuals engaged in making investment recommendations and those who supervise them will receive NRS/Fire Solutions, Inc. training on properly complying with Reg BI, including ensuring that recommendations satisfy the care obligation;
- The Compliance Department 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 relationship summaries provided to retail investors, including ones provided before they open an account;
    - The training our registered representatives receive on Reg BI compliance; 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;

- 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 which include the most recent changes;
- Deliver the most recent relationship summary to a retail investor who is an existing client or customer before or at the time L.M. Kohn: (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

Background

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

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

Responsibility

The Compliance Department will ensure that any customer agreements used by this firm that contain pre-dispute arbitration clauses are fully compliant under Rule 2268.

Procedure

We will review all pre-dispute clauses contained in any material we utilize to ensure that they comply with the requirements of FINRA Rule 3110 and Notice to Members 05-32.

We are not required to modify or replace any existing agreements with clients made prior to June 1, 2005.

We will maintain copies of all materials reviewed with notations indicating whether they were approved, or the course of action that was taken for those that did not merit approval.

Delivery and Acknowledgement of Pre-dispute Arbitration Clause

Background

FINRA Rule 3110(f)(2)(B) requires that a copy of any agreement containing a predispute arbitration clause be delivered, and acknowledged by the client, within 30 days of signing. At that time, the customer must acknowledge the receipt either on the agreement, or on a separate document.

In addition to this 30-day delivery requirement, Rule 3110(f)(3) requires 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 predispute arbitration agreement clause or agreement that the customer has signed, or inform the customer that we do not have a copy of the agreement.

Responsibility

The Compliance Department will ensure 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.

In addition, if a customer requests a copy of an agreement containing a pre-arbitration clause, our CCO will make certain that procedures are implemented to provide a copy of the agreement to the customer within 10-days of the request (or by the 30-day delivery requirement date, if earlier). Our designated supervising principals are responsible for ensuring that the individuals under their immediate supervision are aware of these requirements and that steps are taken to prevent recurrence if the requirement has been overlooked.

Procedure

The Compliance Department reviews client files to help confirm adherence to policies and procedures relating to FINRA Rule 3110(f).

If, for any reason, we do not have a copy of an agreement as required under FINRA/NASD and SEC recordkeeping rules, and are unable to respond to a customer request for a copy of the document, we must inform the customer within 10-days of the request (or by the 30-day delivery requirement date if earlier). We may not neglect to respond to the request.

Our designated supervising principals will, as part of their new-account review, ensure that appropriate delivery of agreements containing arbitration clauses has been made, and that we receive the client acknowledgement. In instances where we find this has not occurred, the individual responsible for opening the account will take steps to remedy the failure, documenting such evidence in the file with the supervising principal's initials and date indicating compliance.

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

Responsibility

Our FINOP, Larry M. Kohn, is responsible for ensuring payment or compliance with any and all awards against this firm or against an associated person.

Procedure

When applicable, we must certify in writing to FINRA Dispute Resolution that we have paid or otherwise complied with any and all awards against us or an associated person. Rule 10330(h) 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 being initiated against either this broker-dealer or the associated person.

In addition to maintaining files on all arbitration actions, with regard to any arbitration awards not paid, the designated supervising principal 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.

We will maintain all documentation requiring review and evidence the review with initials and date. We will also retain proof of all required payments in the files.

Restrictions on Provisions Limiting Rights and Remedies

Procedures and Documentation

The Compliance Department 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.

Stipulated Awards and Settlements

Background

Notice to Members 04-43 indicated FINRA's (formerly NASD'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, attested to in connection with settlements that often are incorporated into stipulated awards, 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 (formerly known as NASD Rule 2110), 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 2130 to provide in addition to the arbitration award, a copy of the claim and all settlement documents and affidavits.

Under Rule 2130, 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, however, 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 2130.

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.

Responsibility

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

Procedure

All individuals who have the responsibility to review client files and correspondence of our associated personnel will include in their reviews searching for any evidence of a situation in which an individual appears to have been involved in, or is currently involved in, efforts to settle a customer claim 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.

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 this firm and all 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.

We will maintain documentation of any review findings that require further action, including the name of the individual who made the finding, date of finding, indication by notes or correspondence that Compliance was advised, etc. In addition, documentation will include all findings and follow-up activities. The review will be evidenced by initials of the reviewing individual and date of review. We will also maintain documentation of any related training.

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 and supervising principals, 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

Activities by Unregistered Personnel

Procedures and Documentation

The supervisors of all nonregistered individuals engaged in telemarketing activities must ensure that those individuals do not engage in any activities that would require registration.

Training

All unregistered individuals engaged in telemarketing of our products/services will receive training to the effect that they may only contact prospective customers to:

1. Extend invitations to firm-sponsored events;
2. Inquire whether the customer wishes to discuss investments with a registered person; or

3. Inquire whether the customer wishes to receive investment literature.

Training Documentation

We will retain all appropriate documentation related to the training received by non-registered individuals and their supervisors regarding restrictions in their telemarketing activities.

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

Everyone's direct supervising principal 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:

- 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.
- 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.
- 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.
- We notify our personnel of the requirement to review the national do-not-call registry prior to engaging in any cold calling (telemarketing) activity.

Overview

Background

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.

L.M. Kohn & Company does not outsource telemarketing services.

Procedures and Documentation

The Compliance Department and direct supervising principals are 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.

Pre-Call Screening

- Firm Specific DO-NOT CALL List
    - Registered representatives must consult LMK Do Not Call List prior to placing any cold call the same day as the call.
    - The LMK Do Not Call List has no expiration period. RR may not call anyone on list.
    - If RR is advised by any person that he/she does not want to be called by anyone at LMK in the future, you must immediately notify your supervisor of such request in writing and provide:
    - Person's name
    - Telephone number *not* to be called.
    - Date you spoke with the person.
- National DO-NOT-CALL LIST - We are required to participate in the FTC's National Do-Not-Call Registry. If you have any questions about this Registry, you can go to www.telemarketing.donotcall.gov and download Q&A for Telemarketers and Sellers about the Do-Not-Call Provisions of the FTC's Telemarketing Sales Rule. FTC fines for not adhering to the rule run as high as $11,000 per incident.

- RR must consult the Federal Trade Commission's National Do-Not-Call Registry ("National DO NOT CALL LIST") prior to placing any cold call the same day as the call.
- RR may not initiate any outgoing call to an individual whose name appears on the National DO NOT CALL LIST except:
- If LMK has established a business relationship with the recipient of the call.
- If LMK has prior express, written agreement with the individual to be called which has been approved by the Compliance Department and contains the number to be called.
- If the RR has an existing personal relationship with the recipient of the call.

Do-Not-Call Lists

Individual supervising principals of individuals engaged in cold-calling 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.

Individual supervising principals must ensure that the version of the national do-not-call registry list used in any cold-calling activity 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 a Compliance Principal. In addition, designated supervising principals are responsible for daily monitoring of any telemarketing scripts utilized by individuals directly under their supervision, to ensure that the scripts comply.

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 Compliance Department.
- 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.

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.

Bond Mutual Fund Volatility Ratings

Policy Recommendations

From FINRA Rule 2213, Definition of Bond Mutual Fund Volatility Ratings: the term "bond mutual fund volatility rating" is a description issued by an independent third party relating to the sensitivity of the net asset value of a portfolio of an open-end management investment company that invests in debt securities to changes in market conditions and the general economy, and is based on an evaluation of objective factors, including the credit quality of the fund's individual portfolio holdings, the market price volatility of the portfolio, the fund's performance, and specific risks, such as interest rate risk, prepayment risk, and currency risk.

Broker-dealers may use a bond mutual fund volatility rating only in a communication that is accompanied or preceded by a prospectus for the bond mutual fund ("supplemental sales literature") and only when the requirements in Rule 2213, specifically 2213(1) through (5), are satisfied.

Disclosure requirements as outlined in Rule 2213(1) through (3) must be included.

Procedures and Documentation

The Compliance Department and all supervising principals must ensure that (if) any communications include Bond Mutual Fund Volatility Ratings then they are required to be fully compliant with FINRA Rule 2213.

Collateralized Mortgage Obligations

Policy Recommendations

For purposes of FINRA Rule 2216, the term "collateralized mortgage obligation" (CMO) refers to a multi-class debt instrument backed by a pool of mortgage pass-through securities or mortgage loans, including real estate mortgage investment conduits (REMICs) as defined in the Tax Reform Act of 1986.

Compliance with the following are covered in Rule 2216:

- Disclosure Standards and Required Educational Material;
- Promotion of Specific CMOs;
- Additional Conditions;
- Radio/Television Advertisements; and
- Standardized CMO Communication Example.

Procedures and Documentation

Our CCO and all supervising principals are responsible for ensuring that any communications utilized by this firm which include collateralized mortgage obligations comply fully with FINRA Rule 2216.

All public communications which include collateralized mortgage obligations will be reviewed, by our CCO or an appropriately designated individual, on at least a quarterly basis to ensure that they comply with Rule 2216.

FINRA Approval

Policy Requirements

Our CCO and all designated principals will ensure that all communications with the public that are required to be submitted to FINRA 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 designated supervising principal 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

Responsibility

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.

Procedure

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

At least annually, our Advertising Principal 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, including dates, name of individual conducting the review and any findings.

Institutional Communications

Background

Sales material distributed or made available only to specified types of institutional customers is not subject to FINRA supervisory preapproval or filing requirements. In addition, certain content standards do not apply to institutional sales material. An institutional investor under this rule is

- Any person described in FINRA Rule 3110(c)(4): (a) a bank, savings and loan association, insurance company or registered investment company; (b) a registered investment adviser; or (c) a person or other entity with total assets of at least $50 million
- A governmental entity or subdivision thereof
- Certain employee benefit plans or qualified plans, provided that the plan has at least 100 participants (but does not include any participants of such plan)
- Any FINRA member or registered associated person of an FINRA member firm
- Any person acting solely on behalf of an institutional investor

Content Standards for Institutional Sales Material

While the basic content standards under FINRA Rule 2210 are applicable to all communications with the public, institutional sales material is exempt from other content requirements, including

- Specific disclosures relating to testimonials
- Disclosure of all material differences between investments or services compared
- Prominent disclosure of the member's name and requirements regarding the inclusion of other names
- Disclosures relating to recommendations
- Restrictions on the use of investment company rankings
- Standards relating to collateralized mortgage obligations

Responsibility

Our CCO and all supervising principals are responsible for ensuring that the materials deemed to be institutional communications meet the requirements for falling under that Rule 2210 category.

Procedure

- The designated supervisory principal will ensure that all registered personnel receive sufficient training on the requirements for material to be deemed "institutional sales material" and that individuals responsible for auditing/reviewing any off-site locations are also aware of the requirements to appropriately review advertising we utilize. We will maintain documentation of all such training in the files, including dates of all such training, copies of materials utilized, names and CRD #s of all individuals who received the training, the dates on which such training was delivered and the method of delivery.
- The designated principal must ensure that any sales material that falls under the FINRA Rule 2211 "institutional sales material" definition is made available ONLY to institutions as defined above. If there is any reason to believe that a communication or excerpt thereof will be forwarded or made available to any person other than an institutional investor, the material may not be treated as institutional sales material. We will maintain documentation indicating approval of material appropriate to be called institutional sales material, evidenced by initials and date.
- We may not consider any material as "institutional sales material" until it is first approved as such by the designated supervising principal.
- Once a decision is made regarding material under Rule 2211, the designated principal will determine whether we will require an agreement or incorporate a disclaimer prohibiting redistribution to any persons who are not institutional investors under Rule 2211. We will maintain documentation regarding such determination in the file, indicating what the decision was, the date of such decision and who made the determination.
- Supervising principals will continue to scrutinize all sales materials utilized by registered personnel to ensure that we are not distributing any unauthorized, potentially non-qualified, institutional sales materials.

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

All supervising principals 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.

We will discuss FINRA Regulatory Notice 08-27, The Obligation of Firms When Supervising their Registered Representatives' Use of Marketing Materials to Establish Expertise, with new hires and at our Annual Compliance Meeting. Our CCO will maintain documentation of such discussions.

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

Background

For reference purposes, FINRA Regulation's September, 1997 *Regulatory and Compliance Alert* discusses on-line chat rooms and call-in format radio broadcasts, in addition to seminars. The standards of FINRA Conduct Rule 2210 regarding communications with the public apply to all public appearances regardless of whether the presentation has been scripted or consists of unrehearsed remarks in response to a question.

In preparing and supervising these mass media appearances, FINRA counsels that messages must be limited to be appropriate for a broad, general audience. Specific levels of audience knowledge, experience or suitability cannot be assumed. Disclaimers and disclosures must also be carefully considered. It should be understood that what works well in fine print in a hardcopy document may not appear on a screen long enough to be read. Similarly, radio disclosures must be made clearly and slowly enough to be fully comprehended. Extemporaneously presented material must reflect the same content standards as scripted material.

Responsibility

Our CCO and all supervising principals are responsible for ensuring adherence to Rule 2210 oversight.

Procedure

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 the standards of Rule 2210(d)(1) are met.

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. The associated person will also be trained to ensure his/her awareness of the fact that s/he also must disclose, as applicable:

(A) that the associated person has a financial interest in any of the securities of the issuer whose securities are recommended, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), unless the extent of the financial interest is nominal; and

(B) any other actual, material conflict of interest of the associated person or member of which the associated person knows or has reason to know at the time of the public appearance.

Our CCO will ensure that we have given education and training to all associated persons who make public appearances as to our procedures, documentation of such education and training.

Our CCO will ensure that we have in effect appropriate surveillance and follow-up activities to verify that appropriate procedures are implemented and adhered to.

Any scripts, slides, handouts or other written (including electronic) materials used in connection with public appearances are considered communications for purposes of this Rule 2210 and our CCO will ensure that we are complying with all applicable provisions of this Rule based on those communications' audience, content and use.

Recommendations (FINRA Rule 2110)

Background

FINRA Rule 2210 (which replaces NASD 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; provided, however, that a retail communication or correspondence may set out or offer to furnish a list of all recommendations as to the same type, kind, grade or classification of securities made by the member within the immediately preceding period of not less than one year, if the communication or list:

> (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."

Responsibility

Our CCO is responsible for ensuring that all individuals charged with creating, reviewing, approving and disseminating correspondence fully understands all the potential Rule 2110 (and other suitability rules) implications.

As required under other sections within these WSPs, 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.

Procedure

All individuals responsible for approving public communications (CCO, Compliance Managers, Designated Supervising Principals) are responsible for ensuring that all appropriate individuals receive copies of any communication determined to contain what could be deemed to be a "recommendation" of any sort. In addition, each document will indicate to whom it was sent (i.e. entire client data base, all clients approved for options trading, etc.).

When reviewing "non-recommended transactions or investment strategies prior to approval, the principal signing off on the transaction must take into account any communication(s) the client may have received from this firm and make a decision to accept the "non-recommended" status or determine that is was, in fact, recommended.

Where the latter determination has been made, a thorough review of the transaction will be undertaken to ensure that all the suitability requirements under 2711 have been met.

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.

Prior to approving any retail communications, supervising principals are responsible for ensuring that all claims regarding fees are appropriately and clearly disclosed.

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

COMMUNICATION, RETAIL: Incoming

Background

"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" means any person other than an institutional investor, regardless of whether the person has an account with a member.**

Responsibility

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

Our designated supervising principals are responsible for ongoing oversight of the individuals under their immediate supervision to ensure that all incoming retail correspondence is handled appropriately and in compliance with regulatory issues as well as our internal policies and procedures.

Incoming Correspondence – We are requiring that branch offices keep separate files for incoming and outgoing correspondence. When an office receives client correspondence in the mail or by fax, we are requiring that they submit for Compliance review/archiving through Financial Tracking at their earliest convenience prior to filing it in their Incoming Correspondence file. This does not include forms, transaction requests, or **personal** cards, invitations and letters. Since most offices only receive hard copy incoming correspondence on occasion, in order to confirm that everyone is remembering to forward the correspondence to us, we are requiring that an Incoming Correspondence Log also be submitted through Financial Tracking on a monthly basis in **Excel format only,** whether or not they had activity.

Procedure

Incoming E-Mail
Designated supervising principals are responsible for ensuring that the registered personnel directly under their supervision are aware of their responsibility to make available copies of all e-mail received from clients. All L.M. Kohn RR's must use Profitability.net email exchange service. This is easily set up through L.M. Kohn by contacting Timothy Schwiebert at 800-478-0788.

For all business related e-mail communications, employees must use ONLY e-mail addresses that are approved by L.M. Kohn & Company and captured through its Global Relay e-mail review system. Using a personal e-mail address to conduct business related communications is STRICTLY PROHIBITED.

An appropriate random sampling of 10% of all copies of e-mail will be reviewed (evidenced by initials and dates) and maintained in the files, or reviewed and maintained electronically. E-mails which raise concerns of any sort will be addressed with the appropriate individual (with notes made on the e-mail as to the discussion, resolution and any remedial actions taken).

Where it is not possible to undertake PRIOR review of 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.

For further policies on electronic correspondence review and supervision, see further "Electronic Communications" sections herein.

Instant Messages
The designated supervising principals and our CCO (through our Annual Compliance Meetings, routine company-wide reminders and personal instructions) stress that we prohibit the use of Instant Messaging for any correspondence regarding our activities as a broker/dealer. (Documentation of all such instructions will be retained in the files, indicating the method of training (i.e. Annual Compliance Meeting, etc.), dates of such training and dates of attendance for each registered individual.

Instances where it is found that this prohibition was violated will be dealt with on a case-by-case basis (and the files will evidence such instances, including the violation, the resulting investigation findings, the dates of such investigations, the name of any individual who was involved in the investigation and any sanctions levied against the violator).

Should we at any time permit our registered employees to utilize instant messaging as a means of communicating with existing or potential customers, 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 polices and procedures regarding the supervision of all correspondence (“snail mail,” internal and external e-mails, etc.). In addition, to ensure appropriate supervision and enforcement, our CCO would be responsible for documenting that any instant messaging software being utilized has 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 that there is appropriate (documented) communication with all firm personnel that an instant messaging system has been approved for use, and what the policies are governing such communications.

FINRA 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 should we at any time alter our policy on the use of Instant Messages.

Incoming “Snail Mail”
All incoming correspondence received, including facsimiles, excluding e-mail (discussed elsewhere

herein), directed to a registered representative and related to our investment banking or securities business is to be reviewed by the designated supervising principal, PRIOR to distribution.

All incoming mail will be date stamped, initialed and copied, with originals to be maintained in monthly or quarterly "incoming correspondence" files for the requisite six-year period. 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 supervising principal by sending a copy of the complaint to Compliance, 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. (See *"Checks Received and Disbursed"* section in these WSPs.)

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) advising them that they can contact senior management directly if the need arises, especially with regard to complaints. This is dealt with under the requirement that statements or other materials routinely sent to customers must include information on where to call with a complaint. (See "Customer Complaint Notification" section herein.)

Branch Office Incoming Correspondence

Internal audits conducted of branch locations will include a testing of all correspondence review, approval and retention policies and procedures to ensure that they are appropriate and that all locations are fully compliant with all applicable rules and internal 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.

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.

All incoming mail will be date stamped, initialed and copied, with originals to be maintained in monthly or quarterly incoming correspondence files for the requisite six-year period. 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 supervising principal by sending a copy of the complaint to Compliance 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 with regard to complaints. This falls under the requirement that statements or other materials routinely sent to customers must include information on where to call with a complaint.

COMMUNICATION, RETAIL: Outgoing

Background

"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 – any person other than an "institutional investor," regardless of whether the person has an account with the firm.

> **Correspondence definition:** written message, e-mail message or market letter distributed to fewer than 25 "retail investors" within any 30 day period.

Retail Communication definition: all types of written communications (*e.g.,* seminar handouts) distributed or made available to more than 25 "retail investors" within any 30 day period.

Responsibility

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

Our CCO ensures that we have appropriate policies and procedures in place for reviewing outgoing retail communication, including e-mail, and that appropriate individuals adhere to these policies and procedures.

Each individual's direct supervising principal must ensure that all outgoing retail communication is handled appropriately and is reviewed for compliance with regulatory requirements and our internal policies and procedures.

Procedure

Outgoing E-Mail
Designated supervising principals are responsible for ensuring that the registered personnel directly under their supervision are aware of their responsibility to make available copies of all e-mails sent to clients.

For all business related e-mail communications, employees must use ONLY e-mail addresses that are approved by L.M. Kohn & Company and captured through its Global Relay e-mail review system. Using a personal e-mail address to conduct business related communications is STRICTLY PROHIBITED.

Outgoing e-mail will be reviewed (evidenced by initials and dates) and maintained in the files or electronically (with electronic indications of review). Additionally the reviews incorporate a key word/phrase search off of a list of hundreds of key words and key phrases and all flagged items associated with hits of those key words and phrases. Incoming and outgoing e-mails of each RR e-mail users which raise concerns will be addressed with the appropriate individual (with notes made on the e-mail as to the discussion, resolution and any remedial actions taken).

Outgoing e-mails should contain:

- The firm's name and address
- The name of the sender
- Applicable (branch/office) location and disclosure
- The firm's phone number
- E-mail address of the sender

Where it is not possible to undertake PRIOR review of outgoing e-mails, our CCO is responsible for ensuring that appropriate training, monitoring, and recordkeeping of documentation is retained.

Compliance will take appropriate measures when an individual appears to have violated our e-mail policy.

Outgoing Mail
All outgoing correspondence, including facsimiles, excluding e-mail (discussed elsewhere herein) prepared by a registered representative and related to our investment banking or securities business is to be reviewed by the designated supervising principal PRIOR to mailing.

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

Where it is not possible to undertake PRIOR review of outgoing correspondence, the Compliance Department is responsible for ensuring that appropriate training, monitoring, and recordkeeping is retained.

Branch Office Outgoing Correspondence
Internal audits conducted of branch locations will include a testing of all correspondence review, approval and retention policies and procedures to ensure that they are appropriate and that all locations are fully compliant with applicable rules and 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. All incoming faxes will be included inside the OSJ correspondence file.

Video Conferencing

Policy Requirements

Video conferencing is considered a type of public appearance from a regulatory standpoint. When video conferencing is being utilized for a seminar, client meeting, webinar, or other public appearance speaking activity that is unscripted and does not constitute a retail communication or correspondence, associated persons must adhere to the following general standards listed under FINRA Rule 2210(d):

A) All member communications must be based on 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 security or type of security, industry, or service. No member may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communications to be misleading.

(B) No member may make any false, exaggerated, unwarranted, promissory or misleading statement or claim in any communication. No member may publish, circulate or distribute any communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

(C) Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.

(D) Members must ensure that statements are clear and not misleading within the context in which they are made, and that they provide balanced treatment of risks and potential benefits. Communications must be consistent with the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield inherent to investments.

(E) Members must consider the nature of the audience to which the communication will be directed and must provide details and explanations appropriate to the audience.

(F) Communications may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast.

Per FINRA Rule 2210(f), any recommendations made must include the following disclosures (if applicable):

(A) any 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

(B) any other actual, material conflict of interest of the associated person or member of which the associated person knows or has reason to know at the time of the public appearance.

Processes and Documentation

Education, training, and procedural updates are to be provided by the firm and must be adhered to by its associated persons. Event documentation is to be archived according to regulatory recordkeeping requirements. Video conference recording, if utilized, requires prior notification to all attendees. The firm will conduct post review and additional follow-up (if applicable) to help ensure that its procedures are implemented and adhered to. Associated persons must be appropriately registered/licensed in all state(s) where the video conference attendees reside.

Any scripts, slides, handouts or other written (including electronic) materials used in connection with video conferencing must be approved by the firm prior to use.

The firm mandates that associated persons providing information via “desktop share” close all non-related background windows to help ensure that proprietary firm or customer related information is not inadvertently leaked.

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

CUSTOMER COMPLAINTS: Appropriate Handling

Responsibility

While all designated supervising principals must ensure that those individuals under their immediate supervision handle complaints in an appropriate manner, our CCO has overall responsibility for all customer complaints.

Procedure

Our CCO must ensure that all associated individuals receive adequate training, at our Annual Compliance Meeting, through compliance alerts, during one-on-one conversations, through manuals, or other means deemed appropriate regarding how to handle complaints, both verbal and written.

- In conjunction with our review procedures for incoming correspondence, 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's review of each complaint, and if necessary, Legal's review, will include a determination whether to amend the individual's Form U4 to reflect the complaint in any manner. In any instance where a member of Senior Management is involved in a complaint, a review of Form BD will also be undertaken to determine whether a disclosure is required on that document.
- Our CCO will maintain copies of all complaints along with any relevant correspondence and/or notes. These files and any internal databases in which complaint information is stored, are under the direct supervision of our CCO.
- 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.
- All complaints received concerning actions taken by employees of this firm will be dealt with on a one-on-one basis between principals of the firm and the relevant registered representative and his or her direct supervisor, if applicable.
- We will retain detailed narratives or correspondence involving the investigation and follow-up activities for each complaint in the files, indicating who undertook the investigation, what the findings were and what follow-up steps were taken.
- Notes indicating who undertook the review and the determination made regarding Form U4, Form U5 and/or Form BD disclosure will be made and maintained with the complaint. If a Form U4, Form U5 or Form BD amendment is required, copies of such filed amendments will be maintained with the complaint, indicating the date on which the amendment was filed on WebCRD.

- When it is determined that a customer's comment did not fall within the definition of a complaint, and therefore no disclosure was made either in our complaint report or on a specific individual's Form U4 or Form U5, careful cross-references will be made in the files indicating why and how this decision was reached and the date on which it was reached.

CUSTOMER COMPLAINTS: Customer Complaint Reports

Responsibility

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.

Procedure

Annually, our CCO will analyze all complaints we have filed under FINRA Rule 3070, 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.

We will maintain documentation of these reviews, including copies of the reports reviewed, dates of review and names of individuals undertaking the review, and findings, including what steps were taken to address any identified trends or recurring complaints.

Per FINRA Rule 2081, we shall not condition or seek to condition settlement of a dispute with a customer on, or to otherwise compensate the customer for, the customer's agreement to consent to our firm's request to expunge such customer dispute information from the CRD system.

Filing Requirements

Background

FINRA requires that we report the occurrence of any of ten specified events, not all necessarily relating to customer complaints, as outlined in Notice to Members 95-81 and contained in FINRA Rule 3070, within 10-days of occurrence. Each occurrence must be reported individually.

Furthermore, on the 15th day of the month following the calendar quarter in which a customer complaint was received, we must report them, online, to FINRA *"in such detail as FINRA shall specify".*

In addition, we must file promptly with FINRA copies of

- Any indictment, information or other criminal complaint or plea agreement for conduct reportable under paragraph (a)(5) of this Rule
- Any complaint in which a member is named as a defendant or respondent in any securities- or commodities-related private civil litigation
- Any securities- or commodities-related arbitration claim filed against a member in any forum other than FINRA Dispute Resolution forum

- Any indictment, information or other criminal complaint, any plea agreement, or any private civil complaint or arbitration claim against a person associated with a member that is reportable under question 14 on Form U4, irrespective of any dollar thresholds Form U4 imposes for notification, unless, in the case of an arbitration claim, the claim has been filed in FINRA Dispute Resolution forum.

We do not need to immediately submit to FINRA any of the above documents that have been the subject of a request by FINRA's Registration and Disclosure staff, provided that we produce those requested documents to the Registration and Disclosure staff not later than 30-days after receipt of such request.

Responsibility

Our CCO must ensure that we meet the requirements of FINRA Rule 3070 regarding reporting.

Procedure

- Our CCO will ensure that, as part of our initial orientation for new hires and at our Annual Compliance Meetings, all registered personnel receive a copy of Regulatory Notices 11-06 and 11-32 and that we explain their responsibilities thereunder.

  Furthermore, as deemed necessary by our CCO and Senior Management, these Regulatory Notices and other appropriate Notices, may be discussed and distributed at various times, including at our Annual Compliance Meetings.
- Our CCO will also ensure that all designated supervising principals receive sufficient instruction regarding their responsibility to determine that the individuals under their direct supervision are aware of, and in compliance with, the requirements to disclose any event specified under FINRA Rule 4530.

  In addition, to comply with the 30 calendar day reporting requirement under FINRA Rule 4530, the designated supervising principals must continuously strive to make individuals under their direct supervision aware of their responsibilities and the appropriate time frames.

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.
- Quarterly, our CCO will ensure that no changes have been made to the address or phone number to which complaints should be addressed.

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 CCO 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 CCO 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 CCO must also ensure that all supervising principals and other 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 CCO 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

Responsibility

Our CCO, working with Principals Drew Kohn, Robert Chess, and Mike Bell, is responsible for making all reasonable efforts to deter and detect instances where it appears that best execution was not obtained.

Procedure

As a fully-disclosed, introducing firm, we direct all order flow to a clearing firm and the clearing firm is responsible for ensuring 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- Conducted by Timothy J. Schwiebert

Review of a "material sample" of transactions on a quarterly basis, to determine whether or not best execution has been achieved. This review will either be done in-house or we will retain an outside vendor (i.e. TAG) to undertake the quarterly review of transactions.

- Verification of receipt (on a quarterly basis) from our clearing firm evidence (numerical, statistical, other) of best execution

Annual Reviews

- Verification of receipt (on an annual basis) of "FINRA's Best Execution Report Card" from our clearing firm. Should such "report card" not be positive, the clearing firm will be contacted for further investigation. Based on the findings of such investigation, it may be necessary to recommend to management that we consider changing clearing firms.
- Verification of receipt (on an annual basis) from our clearing firm of copies of their Written Supervisory Policies & Procedures concerning best execution.

Documentation

- All materials received and/or reviewed to determine the level of best execution for our clients by our clearing firm will evidence such review by initialing the document.
- Any concerns requiring further investigation will be documented and attached to the appropriate reviewed document, along with resolutions or corrective action taken.
- Documentation concerning best execution discussions with our clearing firm will be maintained, indicating the names of those involved in the discussion, and the dates, as well as a detailed information concerning all such discussions.
- Copies of any correspondence with our clearing firm on this matter will be retained.
- Should we change clearing firms due to our best execution concerns, a memo to the file will be issued documenting our concerns and any follow up actions taken on our part.

Privacy (Regulation S-P)

Annual Notice to Customers

Procedures and Documentation

( ) We fall under the institutional customers only exemption and are, therefore, not required to send out annual privacy notice to our clients.

( ) We provide nonpublic personal information only in accordance with certain permitted disclosure provisions and have not changed our policies and practices regarding disclosure of nonpublic personal information since the most recent privacy notice provided to our clients. We are therefore exempt from the requirement to send out annual privacy notices to customers.

Unless we are exempt (as noted above) from under either Section 503 of the Gramm-Leach-Bliley Act or Regulation S-P, our CCO must ensure that we provide annual privacy notices to our customers during the continuation of a customer relationship.

If we do not fall within an exemption, we have opted to select a calendar year as the 12-month period within which the notices will be provided. We will deliver the first annual notice at any point in the calendar year following the year in which the customer relationship was first established.

Our CCO will determine the nature of our annual notification. This could be a simplified notice if we do not disclose, and do not wish to reserve the right to disclose, nonpublic personal information to affiliates or nonaffiliated third parties.

Our CCO must also ensure that we maintain records regarding the annual notices in compliance with Exchange Act Rule 17a-4, indicating to whom the notices were sent and corresponding dates.

California Consumer Privacy Act

Background

This California Consumer Privacy Act Disclosure ("Disclosure') explains how L.M. Kohn & Company collects, uses, and discloses personal information relating to California residents that is subject to the California Consumer Privacy Act of 2018 ("CCPA"). The law applies to any business that has more than $25 million in revenue, or buys or sells the personal information of 50,000 or more consumers, or derives 50 percent or more of its annual revenue from selling consumers' personal information, and that does any amount of business in the State of California. **L.M. Kohn & Company, at this time, does not meet any of the requirements listed (i.e., more than $25 million in revenues, etc.) for the law to have direct applicability to the firm.**

What is Personal Information?

Under the CCPA, "Personal Information" is information that identifies, relates to, or could reasonably be linked with a particular California resident or household. The CCPA, however, does not apply to certain information, such as information subject to certain federal privacy laws, such as the Gramm-Leach-Bliley Act ("GLBA"); the Fair Credit Reporting Act ("FRCA"); and the Health Insurance Portability and

Accountability Act (“HIPAA”). Additionally, personal information does not include publicly available information from government records and de-identified or aggregated consumer information.

Collection, **Use, and Disclosure of Personal Information**

We collect personal information relating to California residents who request or obtain our products or services for themselves (“Consumers’). The specific personal information that we collect, use, and disclose relating to a California resident will depend on our relationship or interaction with that individual.

In the past 12 months, we have collected the following categories of personal information relating to California residents:

- (1) Identifiers, such as name and Social Security number;
- (2) Personal information, as defined in the California safeguards law, such as contact information and financial information;
- (3) Characteristics of protected classifications under California or federal law, such as sex and marital status;
- (4) Commercial information, such as transaction and account information;
- (5) Internet or network activity information, such as browsing history and interactions with our website;
- (6) Geolocation data, such as device location;
- (7) Audio, electronic, visual, thermal, olfactory, and similar information, such as call recordings;
- (8) Professional or employment-related information, such as work history and prior employer;
- (9) Education information, such as school and data of graduation; and
- (10) Inferences drawn from any of the personal information listed above to create a profile/summary about, for example, an individual’s preferences and characteristics.

The purposes for which we use the personal information that we collect depends on our relationship or interaction with a specific California resident. We use personal information to operate, manage, and maintain our business, to provide our products and services, and to accomplish our business purposes and objectives. For example, we use personal information to facilitate communications; conduct risk and security control and monitoring; detect and prevent fraud; perform identity verification; perform compliance, audit, and other internal functions, such as internal investigations; comply with legal process, regulatory requests, and internal policies; and for maintenance of records.

In the past 12 months, we have disclosed the following categories of personal information relating to California residents to affiliated and nonaffiliated third parties for our business purposes:

- (1) Identifiers, such as name and Social Security number;
- (2) Personal information, as defined in the California safeguards law, such as contact information and financial information;
- (3) Characteristics of protected classifications under California or federal law, such as sex and marital status;
- (4) Commercial information, such as transaction and account information;

- (5) Internet or network activity information, such as browsing history and interactions with our website;
- (6) Geolocation data, such as device location;
- (7) Audio, electronic, visual, thermal, olfactory, and similar information, such as call recordings;
- (8) Professional or employment-related information;
- (9) Education information, such as school and data of graduation; and
- (10) Inferences drawn from any of the personal information listed above to create a profile/summary about, for example, an individual's preferences and characteristics.

In the past 12 months, however, we have not "sold" personal information relating to California residents within the meaning of the CCPA. For purposes of this Disclosure, "sold" means the disclosure of personal information for monetary or other valuable consideration.

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.

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

Quarterly, our CCO 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.

Quarterly 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 CCO 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 CCO 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

The Compliance Department has the responsibility of ensuring that the firm's registered representatives are utilizing appropriate SIPC office signage and are complying 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

Supervising principals must 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).

- The Compliance Department has the responsibility of reviewing customer files to help ensure that the required SIPC information has been provided to clients upon account opening and is the same information that's provided to customers thereafter.

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 should be 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.

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. Effective March 17, 2022, a member firm can also place a temporary hold on a transaction in securities when the firm has a reasonable belief that the customer is being financially exploited. In such cases, the member has up to 55 business days to maintain a disbursement or transaction hold where the rule's criteria are satisfied (including the external reporting to a state authority), unless otherwise terminated or extended by a state authority. 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 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

The Compliance Department is 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. The Compliance Department 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.

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, supervisors and firm principals 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 periodic review of senior investor activity to help discern potential red flags or troublesome trends.

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.

A designated supervising principal must pre-approve all seminars in writing. In addition, our CCO must pre-approve any seminars directed at seniors. 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 must be given the list of attendees for all seminars to which senior investors are invited, including their phone numbers and home addresses.

Our CCO, or other designated individuals, will make random calls to some of these attendees to get their feedback on the presentation. Our CCO will maintain documentation of these calls and the information and feedback received. Our CCO will also ensure that important issues surrounding senior investors are discussed at our Annual Compliance Meeting.

Senior Designations and Credentials

Background

In Notice to Members 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.

Responsibility

(X) We do not permit the use of any titles or designations that convey an expertise in senior investments or retirement planning, if they are not recognized by the College Board.

( ) We do 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 is responsible for ensuring that we do not violate FINRA Rules 2110 and 2210, NYSE Rule 472, and possibly the antifraud provisions of the federal securities laws by permitting such designations where specific expertise does not exist. Our CCO is also responsible for ensuring that where such designations are permitted, we do not violate a state prohibition or restriction on the use of senior designations.13

Procedure

(X) We do not permit any designations which imply that our registered personnel have specific expertise in senior investments or retirement if the designations are not recognized by the College Board. Supervising Principals are responsible for ensuring that no business cards or other communication with the public contain such designations or inferences.

( ) As we do permit qualified associated personnel from utilizing 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. Prior to permitting the use of such designations, our CCO requires written documentation concerning curriculum, examinations and continuing education components which validate 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 (http://apps.finra.org/DataDirectory/1/prodesignations/aspx), 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.

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

The Compliance Department 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.

The Compliance Department 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 annually with the customer through usage of account statements, 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 Regulation Best Interest, have been met before any investment recommendations are made.

Periodically, the Compliance Department will ensure that a review is taken of senior accounts -- that is for those individuals over the age of 75 -- unless Senior Management, working with our CCO, determines that the defining age should be changed.

This review includes, but is not limited to, the following type of information that has been captured and taken into account when undertaking transactions on behalf of these accounts.

- Is the customer currently employed?
- What is the customer's annual income?
- What is the customer's net worth (excluding home)?
- What is the customer's total liabilities?
- If a joint account, what is the joint owner's annual income?
- What is the customer's liquid net worth?
- What is the customer's financial objectives and overall risk tolerance? For example, how important is generating income, preserving capital, growth, etc.?
- What is the liquidity needs of the customer?
- What is the source of funds being used by the customer?

- What is the customer's investment time horizon and typical holding period?
- Who is listed as the customer's trusted contact (if provided)?

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; 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.

The Compliance Department will maintain documentation of all such reviews, indicating dates and findings.

Suitability

Accredited Investor

Policy Requirements

Under the Act, there are several 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

Although FINRA's Suitability Rule continues to apply to recommendations to non-retail customers, it no longer applies to recommendations to retail customers. Instead, the SEC's Reg BI applies to recommendations to retail customers of any securities transaction or investment strategy involving securities.

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 and Regulation Best Interest.

Our designated supervising principals will oversee the suitability requirements and documentation based on the client profile information.

Through our Continuing Education Firm Element Training Plan, our Annual Compliance Meeting, compliance alerts, discussions with supervising principals, 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 and/or ProSurv/BetaLink 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.

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.*

Liquefied Home Equity Recommendations

It is L.M. Kohn & Company's policy that no registered representative will recommend that a client or prospect utilize a line of credit on their residence to purchase securities.

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.

In January 2019, FINRA released its 2019 Annual Risk Monitoring and Examination Priorities Letter, where 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.

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: Supervising principals must be immediately notified each time a manual has been archived to ensure that only the most current documents are being utilized by the principals and, to whatever extent applicable, by registered representatives.

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.

Cloud Computing

Policy Requirements

The availability of high-capacity networks, low-cost computers, and storage devices as well as the widespread adoption of hardware virtualization has led to growth in cloud computing. Cloud computing services, such as those that offer software as a service (e.g. cloud-based email, online calendars, online word processors, etc.) or provide cloud-based storage of documents and other data, aim to cut costs, and helps the users focus on their core business instead of being impeded by IT obstacles. Due to the popularity of cloud computing, it has become an increasing compliance and risk management challenge.

Procedures and Documentation

Our cloud computing policies and procedures have been adopted pursuant to approval by the firm's senior management. Our CCO is responsible for reviewing, maintaining, and enforcing these policies and procedures to ensure meeting our overall cloud computing goals and objectives.

As an extension of our Cybersecurity policy, we recognize the critical importance of safeguarding clients' personal information as well as the confidential and proprietary information of the firm and our employees with regards to cloud computing. These procedures provide guidance to employees (also referred to as "Users") regarding the appropriate use of our information technology resources and cloud-based data (including non-public private information, confidential, or sensitive data).

Users of the firm are permitted to access and use, for business-related purposes, cloud-based applications. This must be done through an enterprise account of the firm, rather than by setting up a personal account. The firm's procedures, which apply to both Users who are on-premises or working remotely, include the following:

- We have downloaded and keep on file, a Non-Disclosure Agreement (NDA) and/or Privacy Policy for each provider;
- Due diligence has been conducted on the cloud service provider prior to signing an agreement or contract, and as part of the due diligence, we have evaluated whether the cloud service provider has safeguards against breaches and a documented process in the event of breaches;
- We have created an automated method to transfer any data stored in the cloud;
- We archive all records for a minimum of seven years;
- At least (quarterly/annually) the firm performs a regular electronic records review;
- The firm maintains a backup of all records off-site;
- Users may not use non-approved cloud-based applications to create, receive, transmit, or maintain confidential or sensitive information;
- Users must keep log-in credentials secure and protected against unauthorized access;
- Users may not conduct business through personal cloud-based email accounts;
- We implement two-factor authentication for all cloud-based email account log-in activity outside of the firm's network;

- All firm administrator accounts are carefully managed by:
    - closely supervising which individuals received administrator accounts to limit access to specifically authorized individuals and minimize the number of individuals with such accounts;
    - reviewing the level of access granted to administrator accounts; and
    - monitoring administrator accounts' activities, especially those of "global admin" accounts.
- The firm is familiar with the restoration procedures in the event of a breach or loss of data stored through the cloud service;
- Any data containing sensitive or personally identifiable information is encrypted;
- If the firm allows remote access to its network (e.g. through the use of VPN), the VPN of access of employees is monitored;
- We have adopted procedures in the event that the cloud service provider is purchased, closed, or otherwise unable to be accessed; and
- Upon termination of any access person's employment status, log-in credentials will be disabled to protect unauthorized access to confidential or sensitive information belonging to the firm and its customers.

Electronic Books and Records Maintenance

Policy Requirements

Our Compliance Department 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.

On October 12, 2022, the SEC adopted amendments designed to modernize the twenty-five year old WORM electronic recordkeeping requirements for broker-dealers.

The amendments are effective on January 3, 2023, with a compliance date of May 3, 2023.

Firms now have options for their recordkeeping. The first is the current WORM storage where electronic records may be preserved in a manner that permits the re-creation of an original record if the original record is altered, overwritten, or erased. The new second option, the audit-trail method requires that the electronic recordkeeping system maintains and preserves the records for the duration of their applicable retention periods in a way that maintains a complete time-stamped audit trail that includes the following information:

1. All modifications to and deletions of a record or any part thereof;

2. The date and time of user entries and actions that create, modify, or delete the record;

3. If applicable, the identity of the individual(s) creating, modifying, or deleting the record; and

4. Any other information needed to maintain an audit trail in a way that maintains security, signatures, and data to ensure the authenticity and reliability of the record as well as the ability to recreate the original record.

Regardless of the option chosen, the SEC adopted other changes to Rule 17a-4 as outlined below:

1. Broker-dealers no longer need to notify FINRA or any other designated examining authority before using an electronic recordkeeping system;

2. Broker-dealers need to designate an executive officer for the purpose of executing an undertaking that provides the SEC access, directly or indirectly, to its records subject to certain conditions;

3. Allows other options with regard to how third-party recordkeeping services (such as cloudbased providers) hold electronic records, subject to certain conditions including providing the broker-dealer with access to the records without the need for the third-party provider;

4. Requires that records maintained by a firm be provided to the SEC in a reasonably usable electronic format; and

5. Records can be examined at any time during business hours by representatives or designees of the SEC or FINRA.

Procedures and Documentation

Our CCO and other appropriate principals will:

- Develop appropriate internal systems or select a vendor(s) that meets the rule requirements;
- 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;
- 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);
- 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.

Ensure that the electronic recordkeeping system maintains and preserves the records for the duration of their applicable retention periods in a way that maintains a complete audit trail that includes the following information:

o all modifications to and deletions of a record or any part thereof;

o the date and time of user entries and actions that create, modify, or delete the record;

o if applicable, the identity of the individual(s) creating, modifying, or deleting the record; and

o any other information needed to maintain an audit trail.

Our Compliance Department will retain documentation of all books and records that are maintained exclusively in electronic format. Our CCO will maintain prior copies of notifications made to FINRA by us and by any outside 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

Responsibility

We are required to designate a member of senior management, who is a registered principal, as the individual responsible for (a) approving our Business Continuity Plan ("BCP") and (b) conducting the required annual review of our BCP, including any proposed changes to the existing BCP. **The individual**

designated is:

Name/CRD #: Carl Hollister/1953484
Title: President

Procedure

LMK maintains copies of its business continuity plan and the changes that have been made to it for inspection. An electronic copy of our plan is located on the firm's SharePoint drive and can be accessed by clicking (in order) on the following file folders: “Documents”; “Compliance”; “Broker Dealer”; and “Business Continuity Plan”.

LMK has designated three emergency contact persons that FINRA and/or other regulators may contact in the event of a significant business disruption. **The three emergency contact persons are**:

(1) Name/CRD#: Carl R. Hollister/1953484; Title: President

(2) Name/CRD#: Mike Bell/2183320; Title: CCO

(3) Name/CRD #: Larry M. Kohn/1063493; Title: CEO

In the event of a material change, our CCO is responsible for ensuring that we promptly update our emergency contact information.

Our Compliance Department will ensure that we maintain copies of our BCP plan, annual reviews, and changes that have been made to it for regulatory inspection purposes.

Our Compliance Department is responsible for ensuring that we update our BCP in the event of any material changes to our operations, structure, business or location(s). This updating must be accomplished in a timely manner.

In addition, we will review periodically to determine if any updates are needed in light of any changes to our operations, structure, business or location(s).

In reviewing our BCP, we must ensure that it addresses our anticipating two kinds 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.).

At a minimum, our BCP must address the ten (10) key areas listed below, to the extent they are applicable and necessary. We should also identify and address other key areas which may be required to be included to ensure our BCP is complete and thorough, based on our specific business and operations.

For any of the ten (10) key areas listed below determined (based on our specific business model) not to be required in our BCP, the BCP must include a rationale for it not being addressed. It is not sufficient merely to 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 they prepare an Executive Summary of their BCP as to its relevance for our use in complying with Rule 3510. This Executive Summary would be required to be an integral portion of our BCP.

1. Data Back-Up and Recovery (Hard-Copy and Electronic)
2. Mission Critical Systems (defined in FINRA Notice to Members 04-37 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 account and the delivery of funds and securities."*)
3. Financial and Operational Assessments (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" relates 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 Counter-Party Impact
5. Prompt Access by Customers to their Funds and Securities
6. Alternative 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
10. Regulatory Reporting

In addition, our BCP must also include:

- A detailed description of our business
- A listing of all business locations
- Dissemination of the Plan and Each Individual's Responsibilities Thereunder

Our BCP must address how we will ensure that such disclosure is made at the time a new account is being opened and at other times if applicable (i.e. annually). We must also indicate that we will mail a copy of our BCP disclosure to customers upon request and we may also put the Summary Disclosure on our web site.

Our BCP Summary must address the possibility of a future SBD and how we plan to respond to events of varying scope. In addressing the events of varying scope, our Summary must:

1. 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 city-wide business disruption, and a regional disruption);
2. state whether we plan to continue business during that scenario and, if so, our planned recovery time;
3. provide general information on our intended response; and
4. disclose the existence of back-up facilities and arrangements.

We need not disclose the following factors:

- the specific location of any back-up facilities;
- any proprietary information contained in the plan; or
- the parties with whom we have back-up 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 web site (if applicable), and that customers may alternatively obtain updated summaries by requesting a written copy by mail.

Copies of our initial BCP and any changes will be maintained, evidencing appropriate senior management approval by initials and dates.

Documentation concerning maintenance of current information (required on a quarterly basis) on FINRA's NCS regarding emergency contact individuals will be retained, evidenced by copies of the filings or by initialing appropriate changes made, indicating who made the changes (or verified that the information was to remain unchanged), as well as when such changes or verifications were made.

Documentation as to the required Annual Review of our BCP will be maintained, indicating who conducted the review, the dates of all review activities, comments relating to required changes, and indications that changes were made (including evidence of who made the changes and to whom the revised BCP was distributed).

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

Pandemic Response

Policy

L.M. Kohn & Company'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.

Designated Supervising Principal

A member of Senior Management, who is a registered principal, is responsible for approving our Pandemic Response Plan and conducting the required review.

The individual designated is:

Name: Carl Hollister

Title: President

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;
- Set clear expectations and show examples of what L.M. Kohn & Company expects to be done task-wise, along with deadlines and calendar sharing;
- Create 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;
- Arrange for meetings or conference calls to review the latest information, develop consistent messaging, and make decisions; and
- L.M. Kohn & Company 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;
- 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

Background

NASD Rule 1017 states: "*At least 30 days prior to the occurrence of any of the following changes in ownership, control, or operations, a member firm shall file a written notice and application for continuance in membership with FINRA District Office in the District in which the firm's principal place of business is located*."

Our CCO will ensure that we adhere to Rule 1017 requirements and that no changes as outlined below occur without 30-day prior notification via FINRA's Gateway System.

Responsibility

Our CCO will ensure that we comply with FINRA Rule 1017.

Procedure

- At least quarterly, our CCO, working with Senior Management and legal counsel, if appropriate, will request information regarding 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
    - A material change in our business operations
- We will maintain documentation of each quarterly request in an appropriate file, with copies of any related internal correspondence or notes, indicating by initials and dates who undertook the review.
- If any of the above are under discussion, Senior Management and legal counsel will be advised of our requirements under Rule 1017, noting that the individual responsible for dealing with FINRA District Office be given sufficient time to make the appropriate FINRA filings. We will maintain copies of all correspondence and documentation of the decisions made or actions taken, indicating the names of all individuals involved reaching a decision and associated rationale.
- If any FINRA filing is required due to the result of such communication, copies of all filings and FINRA-related correspondence will also be maintained.

FINOP Duties and Responsibilities

Broker-Dealer Guarantees or Flow-Through Benefits

Responsibility

Our FINOP, Larry M. Kohn, is responsible for ensuring that we are in full compliance with the requirements under FINRA Rule 4150 (as specified in Regulatory Notice 11-26).

Procedure

On at least a quarterly basis our FINOP, Larry M. Kohn, will meet with Senior Management to determine whether or not 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).

FINRA Rule 4150.03 prohibits us from entering into an arrangement described in the rule unless we have the authority to make available promptly the books and records of the other person/entity for inspection by FINRA in the United States. The rule provides that the books and records of the other person 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 is responsible for ensuring that we are in fully compliance with Rule 4150 at all times, and for maintaining appropriate documentation verifying such compliance.

Duties and Responsibilities

Procedure

Larry Kohn is responsible for [in accordance with FINRA Membership and Registration Rule 1022(c)] the following, as applicable to the business and financial requirements of this broker/dealer:

- Final approval and responsibility for the accuracy of financial reports submitted on behalf of this firm.
- Final preparation of all financial reports (trial balances, income/expense statements, net capital computations, FOCUS Reports, etc.).
- Supervision of all individuals assisting in the preparation of financial documents
- Supervision of, and overall responsibility for all individuals engaged in the maintenance of this firm's books and records which form the basis 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:
  1. Ensuring that additional net capital funds are deposited when necessary;
  2. Ensuring that a Fidelity Bond in an appropriate amount (to match our net capital requirement) is maintained; and
  3. Ensuring that all books and records (general ledgers, trial balances, etc.) are maintained on a current basis.
- Reviewing (on a quarterly basis) our “Checks Received/Disbursed” and “Securities Received/Disbursed” logs to ensure that we are not permitting any activities which could jeopardize our Exchange Act Rule 15c3-3 exemption or place us in net capital violation.
- 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 pursuant to the appropriate time frame noted in SEC Exchange Act Rule 17a-4.
- Ensuring that an extension request is filed at least three (3) business days prior to filing date if it is ever anticipated that a FOCUS filing will not be made by the required deadline.

Under SEC Exchange Act Rule 15c3-1, Larry Kohn is also responsible for:

1. Ensuring that net capital is being 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 business was being conducted.
2. Establishing, maintaining and verifying that all accruals are being 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. Analyzing for allowable and non-allowable assets periodically, and at a minimum, at least every two weeks. (NOTE: Receivables from other Brokers or Dealers for other than regular securities transactions are generally non-allowable for capital, including receivables from tax shelter programs, among others).
4. Conducting reviews of any secured demand notes we carry to make certain collateral value, after appropriate "haircuts" are applied, equals or exceeds face value of notes.
5. Reviewing frequently the market value of any inventory positions we may carry with an eye towards possible concentrated positions (being conservative in valuations and making sure of "haircut" deductions).

6. Ensuring that we are in full compliance (under SEC Exchange Act Rule 15c3-1) regarding any withdrawals of capital.
7. Establishing procedures which will allow all reconciliations and analyses to be completed in time for the prompt preparation and filing of Quarterly FOCUS Reports (FOCUS II for carrying firms and FOCUS IIA for non-carrying firms) within the seventeen (17) business day filing requirement.
8. Preparing a monthly net capital computation, regardless of whether or not we are required to file FOCUS Reports on a monthly basis.
9. Ensuring compliance with all notification provisions under SEC Exchange Act Rule 17a-11, including, among other things, notices relating to net capital and books and records deficiencies.
10. Notifying regulators of any change in our fiscal year end ("FYE").
11. Payment of assessments and fees to regulators (see further "FINRA Assessments and CRD Renewals" section in these WSPs).

Electronic Filing Requirements

Utilizing the FINRA's regulatory notice templates, Larry Kohn is responsible for ensuring that the following notices, as appropriate and/or necessary, are filed electronically with FINRA:

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

FINRA Notice to Members 06-61 (November, 2006) states at Endnote #4, "*Electronic filing of these notices with FINRA does not affect requirements in those rules to file notices with the SEC or other securities regulatory agencies.*"

As additional controls, Larry Kohn is responsible for undertaking or overseeing the reconciliation and/or preparation, review and maintenance of the following, if applicable based on the business undertaken by this broker/dealer:

- Liquid asset accounts
- Trade activity reports / blotters
- Error accounts
- 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 (including the nature of the concern, what

the findings were, what actions, if any, were required, relevant dates and initials of the individual undertaking any review or follow up actions). Larry Kohn is the individual ultimately responsible for ensuring that all corrective measures are taken when necessary, or that additional surveillance or other supervisory activities are put into place (working with Senior Management and Compliance).

Deficits in Introduced Accounts

FINRA has stated:

"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 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."

Larry Kohn is responsible for reviewing our clearing agreement to determine whether or not our clearing firm deems us to be responsible for customer deficits. If it does, then both we, as the introducing firm, and our clearing firm must comply with the conditions of the Interpretation, which requires 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."

In instances where 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 a payment schedule that has been agreed to, the introducing broker/dealer must deduct the entire unpaid amount from its net worth in its net capital calculation.

Larry Kohn is responsible for ensuring that arrangements have been made with our clearing firm whereby the latter will report the total deficit to us. On a daily basis, the RBC Service Team utilizes a report received through the PostEdge system to track (and take action on, if applicable) partially secured and unsecured debits. The report, Partially Secured & Unsecured DB Summary Report UNSCSU, outlines the firms' partially secured and unsecured debit information in an all-encompassing summary format. Larry Kohn will make necessary net capital adjustments based on the daily report received, and will follow up with appropriate staff should such a report not be received for any day.

Larry Kohn will also ensure that we maintain all received deficit reports for a period of not less than three years, the first two years in an easily accessible location. Such reports will be deemed by Larry Kohn as "working papers" utilized for net capital computation.

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 FINRA 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.

FYE Audited Financials: In addition, Larry Kohn is also responsible for making every effort to see that our outside independent accountant completes our FYE Audited Financial Statement in sufficient time for it to be filed (not later than 60 days after FYE) with the relevant FINRA, SEC and state jurisdictions.

In the event that our outside independent auditors do not finalize their audit report in sufficient time for us to file it with the regulatory bodies in a timely manner, Larry Kohn will ensure that appropriate extension request letters are submitted, PRIOR to the filing deadline. In such instances, Larry Kohn is responsible for appropriate documentation, follow up and timely submission, based on extensions received.

Two copies of the audited financials are required to be submitted to the SEC in Washington, DC, one copy to the appropriate SEC Regional/District Office and one copy to FINRA's Principal Office. Notice to Members 03-35 states that *"for such filings, an audited financial filed with our District Office instead of FINRA's principal office, will not be considered filed."* In addition, it is Larry Kohn's responsibility to determine, the states in which this broker/dealer is registered which 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, on an annual basis.

Larry Kohn is responsible for ensuring that all financial reports are filed in a timely manner, to the appropriate locations.

Financial Filing Extensions: FOCUS Reports (both monthly, if required, and quarterly) are required to 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. All reports are due by midnight, EST, of the deadline date, and reports are considered filed when actually received by the regulatory body. (If the due date of an annual audit falls on a weekend or business holiday, the audit will be accepted up to the next business day following the weekend or holiday.)

Larry Kohn is aware that 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 03-35, 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."

Larry Kohn is responsible for ensuring that late filing fees are paid in a timely manner and for maintaining appropriate documentation indicating the payments in the files.

Sarbanes-Oxley Act: The Sarbanes-Oxley Act, Section 17(e) of the Exchange Act requires financial documents filed by broker/dealers to be certified by an independent public accountant registered with the Public Company Accounting Oversight Board (PCAOB). This requirement is suspended until such time as PCAOB promulgates rules for the registration of independent public accountants that audit non-public broker/dealers. Larry Kohn is responsible for ensuring that when such requirement becomes official, appropriate steps will be taken to ensure our compliance.

In accordance with FINRA Rule 2270, our CCO will ensure that our FINOP, Larry Kohn, makes available, upon customer request, any information relative to our financial condition as disclosed in our most recent balance sheet. (For purposes of this rule a "customer" is deemed to be any person who in the regular course of our business has cash of securities in our possession.)

General Ledger Accounts and Identification of Suspense Accounts

Responsibility

Our FINOP, Larry M. Kohn, is responsible for ensuring that we are in full compliance with FINRA Rule 4523 (as outlined in Regulatory Notice 11-26).

Our FINOP is also responsible for designating an associated person to be responsible for each general ledger bookkeeping account and account of like function used by us and that the associated person must control and oversee entries into each such account and determine that the account is current and accurate as necessary to comply with all applicable FINRA rules and federal securities laws governing books and records and financial responsibility requirements.

Procedure

Our FINOP, Larry M. Kohn, will provide written documentation to the Compliance Department as to each individual designated with "primary" responsibility for any account or accounts.

Our FINOP (as supervisor) will, minimally on a monthly basis, review each account to determine that it is accurate and that any items that are aged or uncertain as to resolution are promptly identified for research and possible transfer to a suspense account(s).

Our FINOP will record, in an account that must be clearly identified as a suspense account, money charges or credits and receipts or deliveries of securities whose ultimate disposition is pending determination. All information known with respect to each item so recorded 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)

( ) We have designated separate individuals as having "primary" and "supervisory" responsibilities as required under Rule 4523.

- OR -

(x) 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.

Therefore, our FINOP (or our CCO) is responsible for ensuring that we have sought 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 out circumstances). Our FINOP or CCO will maintain all relevant correspondence and attendant documentation.

- OR -

( ) We only have one (1) associated person. Therefore the rule allows us to assign primary and supervisory responsibility for each account to that single associated person. No FINRA notification or approval is required.

Firm Business Matters

Responsibility

L.M. Kohn & Company is engaged in securities activities covering the following products and services:

Our customer base consists of:

85% retail
75% high net worth individuals
1% institutions
1% other brokerage/brokers
13% other (Corporate - 401k)

Procedure

Securities activities, related books and records maintenance requirements; compliance with all regulatory and federal rules, regulations and requirements; and activities engaged in by our registered personnel, are overseen, monitored and reviewed by appropriately designated supervising principals. We have ensured that we have sufficient supervising principals to adequately put into place a supervisory structure dedicated to deterring and detecting any areas of non-compliant or fraudulent activities. We have further ensured that our supervisory personnel are experienced and receive sufficient training to be adequately prepared to undertake their assigned responsibilities. Each registered individual, regardless of amount of activity undertaken or position held, has been assigned a supervising principal who is given oversight responsibility and authority.

In addition, our Compliance Department ensures that appropriate surveillance activities are in place, including, but not necessarily limited to, the use of exception reports, internal reviews, testing of our WSPs and branch office reviews/audits.

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
(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.

CUSTOMER PROTECTION & IMPROPER USE OF CUSTOMER FUNDS

Responsibility

Larry Kohn (working with senior management) is responsible for ensuring that we do not undertake any activities which change our net capital requirement or, if applicable, the Exchange Act Rule 15c3-3 exemption under which we are operating, without prior notification to FINRA.

Larry Kohn is responsible for ensuring that any time our net capital falls below 120% of minimum required (i.e. $6,000 for a $5,000 broker/dealer, $120,000 for a $100,000 broker/dealer) the SEC and FINRA are immediately notified.

Should our net capital fall below the minimum required amount, Larry Kohn is responsible for immediately notifying the SEC and FINRA, and for alerting senior management that we must immediately cease doing business.

Procedure

- Larry Kohn is responsible for ensuring at all times that we are operating in a manner fully compliant with the exemption under which FINRA has currently approved us to operate.

As 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, any instances where checks (or securities) have not been appropriately handled will be taken very seriously by both the FINOP and CCO.

An in-depth review of such instances will be undertaken (overseen by our CCO) to determine if disciplinary actions are necessary, if our policies and procedures require modifications, or if additional training is required. All such instances will be documented in detail for our files, including details as to what occurred and any remedial actions put into effect.

- As certain types of business or services (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 ten (10) principal transactions a year, holding customer funds, etc.) can increase our net capital requirement, Larry Kohn will meet with our CCO on a quarterly basis to ensure that no activities are taking place which have required a change in our net capital minimum. Results of each such quarterly meeting will be documented for the file, including any remedial or corrective measures taken, if applicable.

Designated Supervising Principal

Our CCO must ensure that we have appropriate policies in place to detect and deter inappropriate handling of customer funds.

In addition, our designated supervising principals are responsible for ongoing oversight of all individuals under their immediate supervision to detect and deter any activities involving the improper use of customer funds.

It is our policy that customers be discouraged from sending checks to the firm, but in circumstances where these instructions are not followed, 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, as appropriate (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. If a client submits a check made payable to the firm or an employee of the firm, it is to be immediately turned over to the individual's supervising principal who will, in turn, ensure that the check is entered onto our checks received/disbursed log and returned to the client, with re-issue instructions.

Our CCO and our designated supervising principals must ensure that all registered personnel receive sufficient training regarding the appropriate handling of customer funds.

This firm will process all funds received, make copies, make appropriate checks received/disbursed log entries and mail via a traceable carrier 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, in the client files.

Our checks received/disbursed logs will be reviewed at least monthly 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. The blotters are submitted to LMK at compliance@lmkohn.com and then reviewed before being added to the blotter database on the server. The blotters are reviewed by an administrative assistant who makes sure each branch has submitted a log. We will memorialize reviews of the logs in Global Relay by an authorized supervisor. We have made the reviews by supervisors more than random by adding key word searches on the email reviews to capture and review: keywords added - log, blotter, correspondence, monthly, purchase & sales, check. Additionally, the a compliance manager, or designee, will do a complete search monthly to confirm that all logs submitted were flagged and reviewed.

Red flags triggering reviews of a more in-depth nature 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
- Significant increase in canceled transactions or extension requests

We will memorialize any red flag or other reviews generated to ensure that no improper handling of customer funds has occurred, indicating what caused the review, who undertook the review, the dates of such review activities, what the review entailed and any findings and corrective measure taken.

Risk Assessment/Management

Incident Response

Policy

L.M. Kohn & Company'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. 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

The Compliance Department 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 (i.e., Tim Schwiebert) 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 L.M. Kohn & Company's incident response policies should be directed to our CCO.

In the event of a breach the firm and/or Incident Response Team should do the following (if applicable):

- Contact proper authorities in order to mitigate the situation;
- 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 representatives/clients that a breach occurred;
- Provide training on any procedural changes that may be required as a result of the investigation of an incident.
- 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;
- Identify what has been taken, determine the damage of that leaked information, and take immediate steps to stop the exfiltration of data;
- Remove all malware, harden and patch systems, and apply any updates;
- Review the inventory list and make sure all items are accounted for;
- Evaluate system processes to ensure they have all been restored; and
- 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.

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

The Compliance Department 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, the Compliance Department is responsible for ensuring periodic review to (a) identify additional conflicts, (b) utilize Protegent Surveillance and Global Relay systems to review 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 that may 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 conflicts of interest associated with investment recommendations; and
- 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.

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 L.M. Kohn 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.

CYBER-SECURITY: Managing Threats Against our IT Systems

Background

From the SEC's September 15, 2015 OCIE Cybersecurity Initiative: *"This [SEC] Risk Alert is intended to highlight for firms risks and issues that the staff has identified. In addition, this Risk Alert describes factors that firms may consider to (i) assess their supervisory, compliance and/or other risk management systems related to these risks, and (ii) make any changes, as may be appropriate, to address or strengthen such systems. These factors are not exhaustive, nor will they constitute a safe harbor. Other factors besides those described in this Risk Alert may be appropriate to consider, and some of the factors may not be applicable to a particular firm's business. While some of the factors discussed in this Risk Alert reflect existing regulatory requirements, they are not intended to alter such requirements. Moreover, future changes in laws or regulations may supersede some of the factors or issues raised here. The adequacy of supervisory, compliance, and other risk management systems can be determined only with reference to the profile of each specific firm and other facts and circumstances."*

In January, 2014, FINRA stated in a letter announcing Targeted Cybersecurity Exams: *FINRA is conducting an assessment of firms' approaches to managing cybersecurity threats. FINRA is conducting this assessment in light of the critical role information technology (IT) plays in the securities industry, the increasing threat to firms' IT systems from a variety of sources, and the potential harm to investors,*

firms, and the financial system as a whole that these threats pose. FINRA has four broad goals in performing this assessment:

1. *to understand better the types of threats that firms face;*
2. *to increase our understanding of firms' risk appetite, exposure and major areas of vulnerabilities in their IT systems;*
3. *to understand better firms' approaches to managing these threats, including through risk assessment processes, IT protocols, application management practices and supervision; and*
4. *as appropriate, to share observations and findings with firms.*

On August 7, 2017, OCIE staff issued an NEP Risk Alert, Observations from Cybersecurity Examinations, as a follow-up to the 2014 Cybersecurity Initiative. In this Cybersecurity 2 Initiative, 75 firms, including broker-dealers, investment advisers, and investment companies were examined and "involved more validation and testing of procedures and controls surrounding cybersecurity preparedness than was previously performed" during the original Cybersecurity 1 Initiative. The staff outlined their observations, noting that while they have observed increased cybersecurity preparedness since the Cybersecurity 1 Initiative, there were also areas observed where compliance and oversight could be improved.

FINRA's 2017 Report on Examination Findings included highlighted observations of common cybersecurity threats FINRA observed in 2016 and 2017, including phishing and spearphishing attacks, ransomware attacks and fraudulent third-party wires that frequently involve use of email or stolen customer or financial advisor credentials.

In addition, FINRA noted that areas in which firms could improve their cybersecurity programs against these and other threats include:

- Access management
- Risk assessments
- Vendor management
- Branch offices
- Segregation of duties
- Data loss prevention

In December 2018, FINRA released its Report on Selected Cybersecurity Practices for 2018. The report focused on five main topics:

- Cybersecurity controls in branch offices;
- Methods of limiting phishing attacks;
- Identifying and mitigating insider threats;
- Elements of a strong penetration-testing program; and
- Establishing and maintaining controls on mobile devices.

Responsibility

No one individual can be tasked with ensuring that we have undertaken a comprehensive risk assessment and developed a plan which adequately prevents us from being vulnerable to a cyber attack.

Our CCO will ensure that all individuals involved in efforts to protect the firm and its clients from cyber attacks receive a copy of the OCIE (SEC Office of Compliance Inspections and Examinations) "Cyber-Security Exam Initiative" (September 2015), and FINRA's January, 2014 "Targeted Cybersecurity Exams" letter, as well as FINRA's February 2015 Report on Cybersecurity Practices, and FINRA's December 2018 Report on Selected Cybersecurity Practices.

FINRA's 2015 Report on Cybersecurity Practices states the following "principles," offering "effective practices" for each:

- Firms should establish and implement a cybersecurity governance framework that supports informed decision making and escalation within the organization to identify and manage cybersecurity risks.
- Firms should conduct regular assessments to identify cybersecurity risks associated with firm assets and vendors and prioritize their remediation.
- Firms should implement technical controls to protect firm software and hardware that stores and processes data, as well as the data itself.
- Firms should establish policies and procedures, as well as roles and responsibilities for escalating and responding to cybersecurity incidents.
- Firms should manage cybersecurity risk that can arise across the lifecycle of vendor relationships using a risk-based approach to vendor management.
- Firms should provide cybersecurity training that is tailored to staff needs.
- Firms should use cyber threat intelligence to improve their ability to identify, detect and respond to cybersecurity threats.
- Firms should evaluate the utility of cyber insurance as a way to transfer some risk as part of their risk management processes.

In March 2021, the SEC's Division of Examinations released its exam priorities for the year, including a continued focus in cybersecurity. The Division will review whether firms have taken appropriate measures to: (1) safeguard customer accounts and prevent account intrusions, including verifying an investor's identity to prevent unauthorized account access; (2) oversee vendors and service providers; (3) address malicious email activities, such as phishing or account intrusions; (4) respond to incidents, including those related to ransomware attacks; and (5) manage operational risk as a result of dispersed employees in a work-from-home environment.

Procedure

Our CCO will ensure that a Cyber-Security Committee ("Committee"), consisting of the following individuals, as deemed necessary and appropriate is formed to address this critical area of oversight and protection:

(x) President - Carl Hollister
(x) CEO - Larry Kohn
( ) President
( ) FINOP
( ) Legal (internal General Counsel)
( ) Legal (outside Counsel)

(x) Head of IT - Tim Schwiebert
(x) COO - Tim Chon
( ) Board Members
(x) VP of Supervision - Robert Chess
(x) Chief Compliance Officer - Mike Bell

Others:

(x) _____

These individuals, as well as individuals designated by them to play a specific role in this on-going process, are responsible for ensuring that we have done our utmost to ensure that we are protecting our clients and our firm from the serious harm which would result from a successful cyber attack.

The Committee will discuss, take into account and develop a program that may focus on

- having an Independent 3rd Party conduct an assessment annually
- operational risks (technology failures, external events and internal control failures);
- insider risks in connection with rogue employees, including imposing consequences for violators, providing timely notifications when access or privileges are changed or an employee resigns, moves to another department or is terminated and creating a process by which mid-level managers can address such concerns, including escalating the issue to senior leadership
- outsider risks, such as hackers invading technology systems
- approaches to information technology risk assessment
- implementing an asset inventory, such as performing initial and recurring inventories, identifying sensitive customer and firm information and the location(s) where such information is stored, ensuring the physical security of assets, establishing processes by which lost or stolen assets are reported and providing secured asset disposal
- business continuity plans in case of a cyber-attack
- organizational structures and reporting lines
- processes for sharing and obtaining information about cybersecurity threats
- understanding of concerns and threats faced by the industry
- assessment of the impact of cyber-attacks on the firm over the past twelve months
- approaches to handling distributed denial of service attacks
- training programs that cover topics such as: appropriate handling of customers' requests for user name and password changes, money transfers and identity verification; sound practices regarding the opening of email attachments and links, including using simulated phishing campaigns where the firm notes and re-tests the individuals who failed the exercise; and identifying social engineering activities from hackers
- insurance coverage for cyber-security-related events
- contractual arrangements with third-party service providers
- Secure mobile devices for employees, consultants and contractors by developing policies and procedures for personal devices, reviewing mobile device security controls, maintaining an inventory of all personal and firm devices used to access firm systems and data, enforcing the use of passwords, installing security software and antivirus software, implementing reporting procedures for lost personal or firm devices and ensuring that the firm is able to remotely wipe firm data from a device that belongs to a former employee or from a device that an employee has lost
- periodic phishing and penetration tests to detect firm weaknesses

- data loss prevention such as requiring individuals to use multi-factor authentication and a secure Virtual Private Network (VPN) when working remotely and identifying and blocking or encrypting the transfer of data, such as customer account numbers, Social Security numbers and trade blotter information
- technical controls including establishing minimum encryption standards for all hardware and maintaining regular patching, anti-virus protection, anti-malware and operating system updates
- controls for branch offices, including:
    - developing branch-level WSPs and other comprehensive guidance on cybersecurity controls, and distributing such guidance to all branches;
    - providing branches a list of required and recommended hardware and software options and settings, as well as approved vendors;
    - mandating that branch personnel notify branch management of and properly respond to violations of firm cybersecurity standards or material cybersecurity incidents; and
    - requiring branch staff and registered representatives with access to customer information, as well as those working remotely, to complete initial onboarding, as well as ongoing, regular training on firm cybersecurity standards, practices and risks.
- a branch review program that includes:
    - developing a framework to capture cybersecurity risks, risk levels and related controls at each branch; implementing periodic exam visits or risk-based audits;
    - monitoring branch controls by verifying patching, virus and malware protection, encryption and password protection;
    - confirming branches meet firm cybersecurity standards and use firm-recommended vendors or other vendors meeting firm standards;
    - providing compliance and technology support to branches and registered representatives implementing firm cybersecurity protocols; and
    - re-evaluating branches where branch reviews identified material deficiencies or reported material cybersecurity incidents to ensure that the branch has implemented corrective action.

The Committee will also ensure that through training, testing, and monitoring our firm adopts a “culture of cyber-security” into its daily business practices.

We will address this matter with the expectation of an attack, putting into effect all appropriate preventative measures, have a process to monitor ongoing threats and a specific plan for contingencies and remediation. protection of networks and information, risks associated with remote customer access and funds transfer requests.

In addition, all risks associated with vendors and other third parties, detection of unauthorized activity, and experiences with certain cybersecurity threats must be taken into account when identifying risk areas.

The committee will also ensure that cyber-security training and education is developed, or obtained through an appropriate third-party vendor, such training and education to be mandatory for all appropriate registered and non-registered personnel.

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 and CCO 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 our CCO or another member of Senior Management. We will maintain documentation of any such occurrences.

Customer Funds/Checks/Securities/Stock Certificates

Customer Funds/Checks/Securities

Associated persons are not to take control of, other than authorized associated persons, any customer checks or stock certificates. Authorization must be approved by Compliance. If, at any time, you accept a customer check, it may be considered grounds for possible termination.

Authorized associated persons must deposit client checks and overnight stock certificates the same day of receipt and follow the appropriate operational procedures. Authorized associated persons are required to enter receipt and disbursement information onto a Check Blotter and submit it to the home office the same day.

Checks must be made payable to investment companies or RBC Capital Markets Corporation. Customer checks should never be made payable to LM Kohn or to an associated person.

Instruct clients to send *checks* directly to:

RBC Service
250 Nicollet Mall, Suite 1700
Minneapolis, MN 55401-1931

Instruct clients to send *stock certificates* directly to:

RBC Service
250 Nicollet Mall, Suite 1700
Minneapolis, MN 55401-1931
Attn: Security Processing

In the envelope to RBC, it must include the following:

- The physical stock certificate with the back signed or in lieu of that, the Irrevocable Stock or Bond Power (e-signatures are not accepted), found under RBC Forms; and
- Security & Paperwork Transmittal Log, found under RBC Forms.
- Overnight Package shipment tracking is to be used.

Financial Institutions Branch Networking

Responsibility

Networking Arrangements Between Members and Financial Institutions

LMK Procedures

In the instance that L.M. Kohn & Company is a party to a networking arrangement under which the member conducts broker-dealer services on the premises of a financial institution such as a bank, savings bank, or credit union the firm will register such location as a registered branch with at least a person in charge designation, if not an OSJ on site.

The branch will clearly identify the person providing broker-dealer services and shall distinguish its broker-dealer services from the services of the financial institution. The firm shall insure that its broker-dealer services area displayed clearly with signage that includes the, a SIPC sign, the name of the registered representative assigned as well as any DBA , additionally the following disclosure must be included any signage; “Securities offered through L.M. Kohn & Company, member FINRA/SIPC/MSRB 10151 Carver Road, Suite 100, Cincinnati, Ohio 45242, 1-(800)-478-0788.

The location of the securities office will be physically separate from the routine retail deposit-taking activities of the financial institution.

L.M. Kohn & Company shall engage the financial institution with a written agreement that sets forth the responsibilities of the parties and the compensation arrangements and include all broker-dealer obligations, as applicable, set forth in Rule 701 of SEC Regulation R. Independent of their contractual obligations, members shall comply with all broker-dealer obligations, as applicable, under Rule 701 of SEC Regulation R.

The written agreement will stipulate that supervisory personnel of the member and representatives of the SEC and FINRA will be permitted access to the financial institution's premises where the member conducts broker-dealer services in order to inspect the books and records and other relevant information maintained by the member with respect to its broker-dealer services. All books and records for any such financial institution registered branch will be maintained at the home office located at 10151 Carver Road, Suite 100, Cincinnati, Ohio 45242.

At or prior to the time that a customer account is opened the person in charge will deliver in writing to each customer a disclosure detailing the broker-dealer services being provided by the L.M. Kohn & Company and not by the financial institution, and that the securities products purchased or sold in a transaction are:

(i) not insured by the Federal Deposit Insurance Corporation ("FDIC");

(ii) not deposits or other obligations of the financial institution and are not guaranteed by the financial institution; and

(iii) subject to investment risks, including possible loss of the principal invested.

(B) The disclosures required by paragraph (a)(3)(A) of this Rule also shall be made orally by a member that is a party to a networking arrangement for any customer account opened on the premises of a financial institution.

Communications with the Public

(A) All member confirmations and account statements shall indicate clearly that the broker-dealer services are being provided by the member. All confirmations on transaction executed thru RBC Correspondent Services will have the same disclosure that the investment is not guaranteed by FDIC or NCUA; investments may lose value, and will fluctuate in price.

(B) Advertisements and sales literature, including material published, or designed for use, in radio or television broadcasts, Automated Teller Machine ("ATM") screens, billboards, signs, posters and brochures, that announce the location of a financial institution where broker-dealer services are provided by the member or promote the name or services of the financial institution or that are distributed by the member on the premises of a financial institution or at such other location where the financial institution is present or represented shall include the disclosures required by paragraph (a)(3) of this Rule. The following legend may be used to provide these disclosures in advertisements and sales literature, provided that such disclosures are displayed in a conspicuous manner:

• Not FDIC Insured

• No Bank Guarantee

• May Lose Value

A member shall promptly notify the financial institution if any associated person of the member who is employed by the financial institution is terminated for cause by the member.

Definitions

For purposes of this Rule, the following terms shall have the meanings specified below:

(1) "Financial institution" shall mean federal and state-chartered banks, savings and loan associations, savings banks, credit unions, and the service corporations of such institutions required by law.

(2) "Networking arrangement" shall mean a contractual or other written agreement between a member and a financial institution under which the member offers broker-dealer services on or off the premises of the financial institution.

(3) "Broker-dealer services" shall mean investment banking or securities business as defined in Article I of the FINRA By-Laws.

Accounts

Customer Account Statements and Confirmations

Change of Customer Addresses

Responsibility

Each individual's direct supervising principal ensures that all address changes are handled in compliance with all rules, regulations and requirements.

Procedure

- If possible, address change requests should be received, in writing, from the customer (such documentation to be maintained in the client's files).
- No address changes are permitted unless they are put into writing by the registered representative, initialed and dated by a supervising principal and given to Compliance for approval.
- All efforts should be made to obtain address changes for multi-party accounts in writing, from each party (to be maintained in the client's files).
- Either the supervising principal or Compliance will ensure that address change requests are verified by the customer, with our verification letter going out to BOTH the old AND new addresses (copies of such verification letters to be maintained either in the client's files or by Compliance).
- Address change requests must be approved by an appropriate supervising principal prior to the change being processed (with such approval documented by initials of the approving principal and date of approval).
- 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). Such approved address changes will be documented by approving principal's initials and date of approval, and the addresses will be maintained in all appropriate files).
- Approval for any requests that the registered representative's branch office address utilized will only be accepted if duplicate mailings are also made to the customer's home address. Such approved address changes will be documented by approving principal's initials and date of approval, and the addresses will be maintained in all appropriate files).
- 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 on hand. Such approved address changes will be documented by approving principal's initials and date of approval, and the addresses will be maintained in all appropriate files).
- Documentation of any investigations undertaken in cases where procedures are not followed will be maintained, including any corrective measures taken.
- On a bi-annual basis, our CCO will undertake a review of all address change policies & procedures to ascertain (a) as to their appropriateness and (b) as to firm-wide compliance. Documentation of such reviews will be contained in the file, with indications of findings and any follow up actions.

- The LMK Change of address Form will be utilized in all instances when we are initiating address changes on behalf of the client. Client signature/initials are requiered along with the Registered Rep and Home Office Supervisor signatures.

As of October 1, 2014, Policy for updating addresses on returned mail:

House Accounts

- Enter all return mail information into an Excel Spreadsheet
- Look for new address in DST, Advisor Central, etc.
  - If no updated address can be found, mark as bad address in CAMs. This information will be forwarded to Keane at least annually.
  - If new address can be found, add to spread sheet for mail merge
- Merge client information from excel to the Change of Address Form Letter, send to old and new address, include LM Kohn Change of Address Form with the notice sent to the new address.
- Give the client 30 days to respond to the mailed notices.
- If no negative response, give a copy of the letters to a principal to approve the address change
- Update CAMS and scan the approved letters to DocuClass

Reps Clients

- Scan and email the rep the returned mail
- Give the rep 30 days to provide an Address Update Form signed by the client
- If no response, change the account(s) to house
- Proceed with the above procedure for house accounts

Consolidated Financial Account Reports

Procedures and Documentation

Registered representatives of LMK may, on a case-by-case basis, be authorized to prepare consolidated statements for clients. As these reports represent communications with the public by representatives of the firm, the dissemination of these reports must comply with all applicable FINRA rules as well as federal securities laws. Eligibility to prepare and disseminate consolidated reports is based on the following criteria:

- Registered representative has been approved by Compliance to prepare consolidated statements;
- A copy of each consolidated statement must be submitted to a Supervising or Compliance Principal (i.e., through Financial Tracking) for review and approval prior to disseminating or showing the report to any person or entity in the public;
- The consolidated reports must contain all required disclosures including acknowledging that the information contained in the report has not been verified and that the consolidated report does not serve as a substitute for account statement issued by the clients clearing firm, brokerage firm or investment company; and

- Client(s) attest in writing that they have been provided with appropriate disclosures and understand the nature and limitations of the consolidated reporting process and that the consolidated reports are not a substitute for the statement the clients received from the custodian or clearing firm where the assets are held.

Customer Mail Retention

Background

As indicated in Notice to Members 04-71, under FINRA Rule 3110 we may, upon receipt of a customer's written instructions, hold mail for that customer for a period of

- Not longer than two months if the individual is vacationing or traveling within the U.S., or
- For a period of not longer than three months if the customer is going abroad.

Responsibility

All individuals responsible for overseeing the activities of registered personnel must ensure that sufficient training is given to all individuals regarding the holding of customer mail.

Procedure

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 time period during which we are requested to hold mail.
>
> (2) If the requested time period included in the instructions 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; and 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

Responsibility

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

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

Procedure

(X) 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 will document discussions (such documentation to be retained by both the FINOP and our COC) 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 is aware of the fact that 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 10-62 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 contacts, documenting the decision(s) made and the rationale of such decision(s).

Lost Stockholders

Procedures and Documentation

Our CCO is responsible for ensuring that appropriate individuals (operations, back office, immediate supervising principals) 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.

The mandatory attempt to correct addresses for lost stockholders must utilize information database services that contain addresses from the entire U.S geographic area, where the names of at least 50% of the U.S. adult population, is indexed by taxpayer identification number or name and is updated at least four times a year.

The searches must be conducted by taxpayer identification number, or if a search based on taxpayer identification number is not likely to locate the security holder, by name. The security holder may not be charged for these mandated searches.

The requirement to undertake the first database search is conducted between three and twelve months from the later of

1. the date upon which a correspondence is returned as undeliverable; or
2. if a returned correspondence is re-sent within one month from the date it was returned and is again returned as undeliverable, the date on which the re-sent item is returned as undeliverable.

The second required database search must be performed between six and twelve months after the first search.

The obligation to search does not apply when:

- the broker-dealer has received documentation that the security holder is deceased;
- the total value of assets in the security holder's account is less than $25; or
- the security holder is not a natural person.

Unresponsive Payees

Our CCO is also responsible for working with accounting, or other appropriate departments and individuals, to ensure that any payments from an issuer accepted by this broker-dealer to be distributed to the holder(s) of the security, receive written notice when the check sent to them has not been negotiated within six months, unless the unnegotiated check is in an amount less than $25.

Per Share Estimated Values

Background

FINRA Rule 2340 requires self-clearing and clearing firms to send account statements to customers at least quarterly. Such statement should include a description of any securities position, money balances or account activity since the prior statement.

Rule 2340 also requires that self-clearing and clearing firms provide valuations and disclosures relating to Direct Participation Program (DPP) and Real Estate Investment Trust (REIT) securities on customer statements.

FINRA Rule 2340(c)(3)(4) contains DPP and REIT definitions.

Rule 2340 also contains requirements concerning estimated value disclosures.

Rule 2340 requires that customer account statements include an advisory notice to customers requesting that they *"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 is on the same screen as the account statement.

Neither we nor our clearing firm would be deemed to be in compliance with this requirement if the customer was required to utilize a click-through process to bring the advisory to the screen.

Responsibility

Our CCO ensures that we comply with FINRA Rule 2340.

Procedure

At least quarterly, the designated principal will review a sampling of customer account statements sent out for that quarter, ensuring that all appropriate disclosure requirements appear and that the sample includes DPP and REIT transactions (with their respective required disclosures), if applicable.

In instances where appropriate disclosures have not been made, the designated principal will investigate why there was a failure to comply. We will take corrective measures, if appropriate, based on the quarterly review findings.

We will maintain a file with copies of all statements reviewed, evidenced by initials and dates. We will also maintain documentation regarding any deficiency findings and the corrective measures taken.

Discretionary Accounts

Background

With the overturn of the Merrill Rule, broker-dealers may once again maintain discretionary accounts without needing to register as an investment adviser. FINRA Rule 2510 remains in effect covering all discretionary accounts maintained by broker-dealers.

Responsibility

The Compliance Department is responsible for ensuring that there are no discretionary accounts for Registered Representatives, with the only exception being limited discretion as to time and price.

It is L.M. Kohn's policy that any Registered Rep utilizing limited discretion, must be approved in advance of any transactions by an appropriate supervisor.

Procedure

- If we are registered as an Investment Adviser, documentation requirements and our IA supervisory review responsibilities are outlined in our IA Compliance Manual.
- If we are not registered as an Investment Adviser, thereby prohibited from maintaining discretionary accounts, account reviews undertaken will look for instances of unauthorized transactions (see elsewhere within these WSPs). Exception reports such as “Cancelled and Rebill

Reports," "Churning," "Switching" and "Twisting," as appropriate, may be utilized along with ProSurv account and trade reviews to uncover unauthorized transactions in accounts. All such exception reports will be maintained and reviewed by the Compliance Department.

- If we are not registered as an investment adviser, the Compliance Department is responsible for ensuring that all registered personnel fully understand the regulatory prohibition concerning such accounts. Anyone found to be acting in a discretionary manner in an account will be found to be engaging in unauthorized transactions and will be appropriately sanctioned (including the possibility of termination).
- In addition, each individual's direct supervising principal is responsible for ensuring that no discretionary activity is occurring in any accounts unless such activities are permitted due to our registration as an Investment Adviser, appropriately overseen by IA supervisory personnel.

Under FINRA Rule 3260, broker-dealers may maintain discretionary accounts without registering as investment advisers. , so long as the transactions are not "excessive in size or frequency in view of the financial resources and character of such account." L.M. Kohn does not accept discretionary accounts except for the following instances of temporary or limited investment discretion that, standing alone, would not support the conclusion that a relationship is primarily advisory—and therefore outside the scope of the solely incidental prong—include discretion:

- As to the price at which or the time to execute an order given by a customer for the purchase or sale of a definite amount or quantity of a specified security;
- On an isolated or infrequent basis, to purchase or sell a security or type of security when a customer is unavailable for a limited period of time;
- As to cash management, such as to exchange a position in a money market fund for another money market fund or cash equivalent;
- To purchase or sell securities to satisfy margin requirements, or other customer obligations that the customer has specified;
- To sell specific bonds or other securities and purchase similar bonds or other securities in order to permit a customer to realize a tax loss on the original position;
- To purchase a bond with a specified credit rating and maturity; and
- To purchase or sell a security or type of security limited by specific parameters established by the customer.

Effective July 12, 2019, the SEC's interpretation of the definition of ''investment adviser'' in the Advisers Act excludes any broker or dealer that provides advisory services when such services are ''solely incidental'' to the conduct of the broker or dealer's business and when such incidental advisory services are provided for no special compensation.

The SEC interpreted the statutory language to mean that a broker-dealer's provision of advice as to the value and characteristics of securities or as to the advisability of transacting in securities is consistent with the solely incidental prong if the advice is provided in connection with and is reasonably related to the broker-dealer's primary business of effecting securities transactions. As such, a broker-dealer's exercise of unlimited discretion would not be solely incidental to the business of a broker-dealer consistent with the Advisers Act, showing that the relationship is primarily advisory in nature.

However, the SEC recognizes that there are situations where a broker-dealer may exercise temporary or limited discretion in a way that is not indicative of a relationship that is primarily advisory in nature. Generally, these are situations where the discretion is limited in time, scope, or other manner and lacks the comprehensive and continuous character of investment discretion that would suggest that the relationship is primarily advisory. The totality of the facts and circumstances would be relevant to determining whether temporary or limited discretion is consistent with being solely incidental.

Procedures and Documentation

The Compliance Department ensures strict oversight protocols; we do not accept discretionary brokerage accounts, only incidental and with limited scope.

We will not monitor a customer account in a manner that in effect results in the provision of advisory services that are not in connection with or reasonably related to our primary business of effecting securities transactions.

All order tickets must note whether discretion was exercised. When temporary or limited discretion is exercised, we will document the reason behind this exercise.

The review of transactions will look for, among other potentially problematic areas, the following:

- Unsuitable recommendations;
- Excessive trading;
- Transactions unauthorized by the firm;
- Improper use of nominee accounts;
- Unsuitable switching/replacements;
- Selling below breakpoint for mutual fund shares;
- The making of guarantees;
- Misuse of customer funds or securities;
- Improper charges; and
- Undue concentration in a single security.

If any red flags are identified, we will take follow-up steps to investigate further, including reviewing email and other communications between the customer and registered representative.

Handling Customer Funds and Securities

Client Account Reassignment

Background

From time to time, the firm may need to reassign client accounts among registered representatives at the firm. This situation may arise in a variety of situations, including when a registered representative joins or leaves the firm. To ensure that any transfers of customer accounts within the firm are processed appropriately, the firm has adopted these policies and procedures.

Policy

Whenever a client's account is reassigned for a reason other than a registered representative leaving the firm, the newly-assigned registered representative will review all the client's open accounts within ten (10) days of the accounts being assigned to him or her.

L.M. Kohn & Company will designate a registered representative who serves as the interim representative whenever a registered representative leaves the firm. This interim representative is responsible for the former registered representative's accounts and will be the individual to whom the former employee's clients may direct questions and trade instructions following the representative's departure. The interim representative will no longer be responsible for these accounts once a new registered representative is assigned.

When client account reassignment will occur because a registered representative is leaving the firm, L.M. Kohn & Company requires that a review of the former employee's clients be performed within ten (10) days of a registered representative leaving the firm. Each of the former employee's clients will be reassigned, and the newly-assigned registered representative will also review the client's open accounts within ten (10) days of the accounts being assigned to him or her.

The CCO will ensure that, whenever a client's account is reassigned, the client is notified in writing within ten (10) days of the reassignment. The notification to the client will include the date on which the reassignment occurred and the name and contact information of the newly-assigned registered representative. The communication should also clarify that the client may retain his or her assets at L.M. Kohn & Company and be serviced by the newly assigned registered representative, a different registered representative at L.M. Kohn & Company, or transfer the assets to another firm. Information provided by the member firm about the departing registered representative must be fair, balanced and not misleading.

Procedures and Documentation

When a registered representative leaves L.M. Kohn & Company, the CCO will ensure that a review of all of the former employee's clients will be performed within ten (10) days of that registered representative leaving the firm. After the review, the CCO will reassign the former employee's clients to other registered representatives at the firm.

The CCO or Branch Supervisor will determine the manner in which client accounts are reassigned.

Whenever a client account is reassigned, the newly-assigned registered representative will review the client's open accounts within ten (10) days of the account being assigned to him or her. The registered representative will review, at minimum, the following:

- Investment objectives
- Investment suitability
- Recent trading activity
- Investment recommendations

The newly-assigned registered representative will document his or her review of the client's open accounts. This documentation will be kept for a period of six (6) years.

Bulk Transfers/Negative Response Letters

Background

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

- FINRA Rule 2510(d) allows broker-dealers to use negative response letters in certain situations to effect 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 has also interpreted the trade reporting rule regarding riskless principal trading to permit 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. Such actions include:
    - 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 2350)
    - Acquisitions or mergers of broker-dealers
    - Change in clearing firm

Responsibility

Our CCO ensures that we utilize negative response letters for bulk transfers only in appropriate situations, and that all registered personnel are aware of our prohibition against utilizing such letters in other circumstances.

Bulk Exchanges of Shares of Certain Reserve Funds

Our CCO will oversee all bulk exchanges for customers invested in the Reserve Primary Fund, the Reserve Yield Plus Fund and the Reserve International Liquidity Fund, to shares of another money market fund or for deposits in an FDIC-insured bank, in adherence with FINRA Rule 2510(d) as outlined in FINRA Regulatory Notice 08-48.

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

- FINRA Rule 2510(d) allows broker-dealers to use negative response letters in certain situations to effect 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 has also interpreted the trade reporting rule regarding riskless principal trading to permit 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. Such actions include:
    - 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 2350)
    - Acquisitions or mergers of broker-dealers
    - Change in clearing firm

Procedure

FINRA may approve the use of negative response letters in other situations requiring bulk transfers. If Compliance and Senior Management deem this appropriate, our CCO will first contact our FINRA District Office for guidance.

In any instances in which we use negative response letters to accomplish a bulk transfer of customer accounts, 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 time 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 as a result 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
- A statement regarding the firm's compliance with Regulation S-P (Privacy) in connection with the transfer

We may not utilize any negative response letters for bulk transfer of accounts unless the CCO has signed off on them. While it is permitted as described above, 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 to move an account to another firm 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.).

The use of negative response letters for convenience-sake-only may conflict with our obligation to observe high standards of commercial honor and just and equitable principles of trade under Rule 2110. Negative response letters are therefore strictly prohibited unless expressly permitted under FINRA rules and approved by Compliance.

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

- FINRA Rule 2510(d) allows broker-dealers to use negative response letters in certain situations to effect 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 has also interpreted the trade reporting rule regarding riskless principal trading to permit 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. Such actions include:
    - 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 2350)
    - Acquisitions or mergers of broker-dealers
    - Change in clearing firm

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

Background

FINRA Interpretive Material IM-2110-7 provides that *"it is inconsistent with just and equitable principles of trade for a member or person associated with a member to 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, provided that 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. For more information, see FINRA Notice to Members 02-07.

IM-2110-7 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. IM-2110-7 restricts us from interfering with a customer's right to transfer his or her account once the customer has requested us to move the account.

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.

Responsibility

Our CCO oversees all issues relating to customer account transfers.

Procedure

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.

The CCO will retain documentation on all account transfers, indicating date of receipt of any customer requests to have their accounts transferred and dates of actual transfer.

For an account transfer request ultimately withdrawn by the customer that results in the account remaining with us, we will retain comprehensive notes in the file of all conversations and other communications leading to the customer's decision not to transfer.

Transmittal or Withdrawal of Asset Requests Received Via E-Mail

Background

From FINRA Regulatory Notice 12-05 (reiterated from Regulatory Notice 09-64): *"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 agreement must specify the responsibilities of each party to the agreement, and while the rule permits firms to allocate responsibility for the performance of certain functions between the carrying and introducing firms, it expressly requires that 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.

Responsibility

The following policies and procedures in effect for outgoing withdraw/transfer of funds via wire.

Our CCO is responsible for ensuring that all appropriate affiliated personnel (including, but not necessarily limited to, senior management, operations, supervising principals and sales representatives) are aware of the required safeguards we have in place to ensure the safety of our client funds and assets by requiring verification of email requests for funds or assets movement.

One of the risks associated with accepting instructions to withdraw or transfer funds by email and other electronic means is that customers' email accounts are susceptible to being breached by hackers or other intruders who may use the email accounts to commit fraud.

Therefore, 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 outgoing wires require Home Office Principal Supervisor approval prior to being submitted to RBC. Once the RBC wire transfer form is received, the Principal Supervisor will contact the client directly (via

the phone number(s) provided in the RBC BetaLink system) and will ask a series of security related questions to help verify the customer's authenticity. If unable to reach the client, then the wire will not go out. Third- party wires also require a separate Change of Ownership form as well in which the verbal confirmation of the transaction with the customer is documented.

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.

Upon receiving verification that the email request was made by the client, all procedures concerning oversight (including AML) of excessive or larger than normal transmittals or withdrawals, those that appear to be overly urgent, those which appear out of the ordinary based on client history, or those which request transmittal to a third-party concerns) will be in effect.

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.

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 a supervising principal or 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

Designated supervisory principals 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.

Designated supervisory principals 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

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

Quarterly, the designated principal will request that supervising principals compile lists of customer accounts that have had changes made to their account investment objectives or customer-related information, either internally or upon the request of the customer. The designated principal will determine that all such customers have received a copy of the revised information for verification purposes, documenting such review by initialing and dating the lists received.

The designated principal will also conduct annual 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 supervising principal 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.

Quarterly, our CCO will conduct a review of all new account forms used 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.

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".

We must also act in the best interest of a retail customer when making a recommendation of any securities transaction or investment strategy involving securities and may not put our own financial interests ahead of the customers.

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.

Per FINRA Rule 3250, we will not carry an account on our books in the name of a person other than that of the customer, except that an account may be designated by a number or symbol, provided that we have on file a written statement signed by the customer attesting the ownership of such account.

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.

Updating and Periodic Affirmation

Responsibility

Our CCO will ensure that customer account information is updated, as required, and that we send the required periodic affirmation, at least every 36 months of such information to customers.

In addition, our designated supervisory principals are responsible for ongoing oversight, through trade reviews on ProSurv, of the registered individuals under their immediate supervision for all customer account information updating and verification when it comes to investment objectives and risk tolerance changes based on trade review discoveries.

Procedure

Designated principals must ensure that the individuals under their direct supervision know, and comply with, the requirement to update customer information whenever the customer informs them, there is a noted difference in investment activity in the customer accounts or they become aware of changes. The appropriate supervisor must approve in writing all changes to customer account information. No changes may be made without written authorization by the client. For every update involving risk tolerance and or investment objective changes a new account form will be sent to the client to be completed and signed. The RR along with the supervising principal must review and sign the updated new account forms before the account is coded with the new objectives and risk tolerance. The supervisor will not sign off on the updated new account form if the objectives and risk tolerance do not

match up with the age, means, and experience of the client. All of the updated new account form s must be submitted to the home office as part of the official books and records for the firm. The updated new account form will be sent to the client via email or US Postal delivery within 30 days of receipt at the home office to verify the changes are in lin line with their circumstances. This is the same 30 day process used for new accounts.

Ongoing reviews of the investment objectives and risk tolerance changes will be monitored daily through the ProSurv system to make sure the trading activity, the purchases and or sales are in line with the updated investor profile, including their age, means, risk tolerance and stated objectives.

Designated principals will 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, documenting such review in the file, including dates, names of individuals undertaking the review, scope of the review and findings, including corrective measures taken, if necessary, due to uncovered deficiencies.

Omnibus Accounts

Control of Securities/Mutual Fund Shares - Un-Certificated

Policy Requirements

Securities under our control must be in an appropriate control location as set forth in SEC Rule 17a-3 and the Financial and Operational Rules, (c)(1).

Procedures and Documentation

Our FINOP ensures that any omnibus accounts we maintain are designated as a "Special Custody Account for the Exclusive Benefit of Customers" account (enter appropriate account names, if applicable), and that we have a letter on file indicating that the accounts are carried free of any lien or payment.

Our FINOP is responsible for adhering to the requirement that we carry the shares of investment company securities long in the appropriate customer accounts. If we are only able to identify ownership on the plan level and not the participant level when the record keeping function is provided by another entity (enter name, if applicable), we must have an agreement in place between us and (enter name of entity, if applicable) outlining the arrangement between the two entities.

To comply with SEC Rule 17a-3, our FINOP must ensure that we prepare and maintain stock records reflecting all positions for each fund. The CCO has responsibility to periodically review the above polices and procedures to help ensure they are being adhered to.

Long and Short Positions

Policy Requirements

Our FINOP and CCO are responsible for ensuring that we are in full compliance with the SEC's Books and Records Rules 17a-3(a)(5) and 17a-4(a), as they relate to "long" and "short" positions carried in our omnibus accounts.

Procedures and Documentation

For accounts we carry for our customers (currently omnibus accounts held at (name) and (name)), our FINOP is responsible for ensuring that we maintain securities records/ledgers reflecting, all long and short positions for each security, as of the clearance date.

Quarterly, our CCO will undertake a review to ensure that such records/ledgers are being appropriately maintained.

Third-Party Requests

Procedures and Documentation

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.

We must utilize a "third-party form" or whatever other additional documentation is required internally. A change of address may NOT take affect or other instructions followed until the document has been returned by the customer acknowledging their request, and approval for the third-party address has been given by the appropriate designated principal. Copies of appropriate documentation will be submitted to the CCO.

We will maintain documentation of the customer consent and internally approved third-party forms in the appropriate client file.

At least annually, our CCO will oversee a review to test these procedures and to review all files that have had third-party activity to ensure that appropriate documentation and appropriate principal approval is in the files.

SUITABILITY: Converting accounts to fee based from commission based

Background

NtM 03-68 reminds members that Investment Advisor fee-based compensation programs, which typically charge clients a fixed fee or percentage of assets under management, are to be appropriate in nature for clients and have reasonable charges related to the advisory products and services being offered/rendered. Member firms have a responsibility to ensure that customers who are recommended to convert an existing brokerage relationship at the firm to a fee based account understand the costs and service level differences and that procedures are in place to make sure conversions are appropriate and suitable. If an account has been in a brokerage status for over three months prior to converting to an advisory account, a conversion form is required which outlines the reasoning for the conversion and documents the updated responsibilities associated with the new advisory relationship. The conversion form also requires a copy of the client's current open holdings, along with the dates they were acquired. This is for the purpose of knowing which ones will need to be excluded from billable assets. Additionally, it states that all commission-based UITs will be excluded from billable assets until maturity.

Responsibility

The CCO or other designated home office supervisor will review each client relationship converting from commission based to fee based. Cost is an important factor, but not the only one. For this reason, NtM 03-68 points out that factors other than cost may properly be considered to determine whether a fee-based account is appropriate. The firm will consider the overall needs and objectives of the customer when determining the benefits of a fee-based account for that customer, including the anticipated level of trading activity in the account and non-price factors such as the importance that a customer places on aligning his or her interests with the broker. Additionally, the firm will review the LMK Commission Account To Advisory Account Conversion Authorization Form for adequacy and appropriateness. The firm must take into account the nature of the services provided, the benefits of other available fee structures, and the customer's fee structure preferences.

Procedure

The review must be documented and show the costs to be incurred by the client for the conversion. The review will include all of the advisory paperwork signed by the client as well as the LMK Commission Account To Advisory Conversion Authorization Form where the RR and client must sign and identify the non cost attributes of converting to a fee based relationship vs. a commission based relationship. A review of the current open holdings, along with dates acquired, will be performed for the purpose of knowing which ones are to be excluded from billable assets (in addition to any commission-based UIT holdings, until they mature). The review must memorialize the nature of the services provided, the fee structures, and the difference between "Wrap" or ticket charge structure preferences. At least annually, typically the anniversary of the fee based relationship the account(s) will be reviewed for reverse churning for accounts with the registered representative as portfolio manager. These reports are available on RBC through a data works request.

Electronic Signatures

Policy Requirements

L.M. Kohn & Company will accept electronic signatures ONLY from the following approved vendors:

- 1) DocuSign; and 2) Adobe Sign (**NOT Fill & Sign**).

The following are **NOT** acceptable as it relates to e-signatures:

- Legal documents submitted such as a Power of Attorney or anything notarized, or signature guaranteed that has an e-signature on it;
- RBC checking account applications;
- Typed or cursive signatures in the signature box that was not used by an approved vendor;
- Documents submitted that were signed electronically, but filled in by hand. If you use e-sign, everything must be completed electronically. In other words, you cannot print out forms that were signed electronically and fill in blanks or checkboxes yourself; and
- Physical checks should not accompany digitally signed applications. However, you may use voided checks to establish ACH and deposit funds via ACH instead of check. It would be preferable to establish as much ACH as possible to avoid handling physical checks.

Procedures and Documentation

Representatives must use electronic signatures for all documents submitted, when that is the format being utilized. Each document submitted with e-signatures must contain the e-signature vendor's audit trail of the document showing time stamps, IP addresses, proof of document review, etc. L.M. Kohn & Company requires the recipient identity verification option to be chosen when representatives are utilizing DocuSign or Adobe Sign for individual recipients, requiring them to provide additional information to prove their identity. Representatives must select the "SMS authentication" method for DocuSign and "Phone (SMS) authentication" method for Adobe Sign which require the recipient provide a passcode received by SMS text message in order to view their documents. The specific instructions on how to do the DocuSign SMS authentication are as follows: 1) Click the "**Customize**" dropdown box in right hand corner of the Add Recipients screen; 2) Click "**Add identity verification**"; 3) Click the dropdown box under "**Identity Verification**" and then select "**SMS**". Representatives are also required to save the DocuSign paperwork as a PDF and this is done by clicking "Keep PDF form data" from the "Manage PDF form field data" popup box. For Adobe Sign, SMS authentication can be provided as follows: 1) Go to the Add Recipients screen and click on the **picture of the envelope** (to the right of the recipient box) and then click **"Phone"** and that will ensure that the customer must put in a SMS code on their phone in order to view the document(s).

Certification paperwork for both DocuSign and Adobe Sign (called a "Cover Sheet') must be provided and if it is not included or comes without verification of SMS authentication, then it will be rejected by the Home Office.

An e-signature attestation form must also have been provided and on file with the Compliance Department by all Registered Representatives and Investment Adviser Representatives utilizing the e-signature process. This form lists the e-signature vendor that has been chosen by the RR and/or IAR and provides attestation towards understanding and agreeing to follow the firm's electronic signature policy. This is required to be done prior to utilizing the electronic signature process.

The Compliance Department will be responsible for reviewing and maintaining the attestation documents. They will be archived electronically in the Rep Database folder which is located in the firm's Compliance Drive. A signature verification form can also be provided to the Compliance Department to assist with the validation of the customer’s actual signature (for times when electronic signatures are not able to be utilized).

Social Media

Policy

It is L.M. Kohn & Company's policy to monitor employee use of social media, networking and similar communications. Employees should take note that their social media and networking use is monitored by Compliance (on a daily basis) through the Smarsh archiving system and that their e-mails are monitored by Compliance (on a daily basis) through the Global Relay archiving system. There should be no expectation of privacy in the use of the Firm's Internet, e-mails, any use of blogs, instant messages, company-owned cellular phones and text messages on company-owned equipment under this policy. Every message leaves an electronic trail that's both traceable to a specific individual and accessible by L.M. Kohn & Company even if it is deleted. Blogging or other forms of social media or technology include but are not limited to: video or wiki postings, sites such as LinkedIn, Instagram, Facebook and Twitter, chat rooms, pod casts, virtual worlds, personal blogs, microblogs or other similar forms of online journals, diaries or personal newsletters.

L.M. Kohn & Company ("LMK") will retain records of any communications through the approved site. With respect to communications posted by associated persons of LMK on approved social media sites, such materials are considered advertisements because they can be viewed by anyone with access to these services. Employees are PROHIBITED from posting static content to these sites without receiving prior approval from their Supervising Principal or Compliance. Texting and Instant Messaging are PROHIBITED.

You must also understand the difference between static content and interactive communications.

- **Static content** is typically posted for the longer term and lacks the immediacy of a real time conversation. Most static material must be approved by a registered principal prior to use, and sometimes may be required to be filed with FINRA.
- **Interactive communications** are typically real-time and involve a dialog with third parties. Interactive material does not require principal approval prior to use if it is extremely general in nature and does not refer to any specific products and is supervised in a manner similar to the way firms supervise correspondence and institutional communications. LMK allows associated persons to use interactive communications prior to principal approval, under the following conditions:
    - Training is provided on the content standards of the communications rules;
    - The communications are post-reviewed/approved by a Compliance Principal and archived in Smarsh;
    - Disciplinary actions take place if (applicable) problems are detected; and
    - Documentation is made of any findings and disciplinary actions taken.

Participating in conversations in chat rooms is PROHIBITED. You may not publicly discuss clients, investment strategies or recommendations, investment performance, other products or services offered

by the firm. You may not post on personal blogs or other sites the name, trademark, or logo of LMK or any business with a connection to LMK. You may not post company-privileged information, including copyrighted or trademarked information or company-issued documents. You may not post on personal blogs or social networking sites photographs of other employees, clients, vendors, or suppliers, nor can you post photographs of persons engaged in company business or at company events. You may not post on personal blogs and social media sites any advertisements or photographs of company products, nor sell company products and services. Associated persons may not link from a personal blog or social networking site to LMK's website. You should avoid including personal or account related information on social media communications. You are required to ensure that any postings or materials being shared on social media sites are done so in a professional nature.

More specifically, you are PROHIBITED from posting information or materials considered to be:

* Defamatory, libelous, confidential, harassing, abusive, threatening, obscene, harmful, offensive, objectionable or which may lead to liability or violation of law;

* Fraudulent, deceptive, or misleading;

* Infringing on the copyright, intellectual property, proprietary, or other rights of any person/entity;

* Violating any person's privacy or publicity rights;

* Attempting to influence polls, rankings, or web traffic;

* Promotional in nature or focused on selling a product or service;

* Phishing, spam, chain letters, scams, or pyramid schemes;

* Containing a virus or any other component that may harm a person's computer;

* Containing, depicting, or promoting illegal content or activities;

* Containing or requesting any personal or confidential information;

* Containing or requesting account numbers, policy numbers, or claim numbers;

* Containing or requesting e-mail addresses, phone numbers, or financial information; or

* Requesting or providing specific investment advice, recommendations, or testimonials.

Any information, comments, photos, and videos (along with any image, likeness, voice, and statements contained therein) and any other content or actions taken by users on our Social Sites ("User Content") is the responsibility of the person who posted them and does not necessarily reflect the views or opinions of LMK. We are not responsible, do not endorse, and do not confirm the accuracy of any User Content. This includes the ads, products, advice, opinions, recommendations of, or other material that any third-party may place on social media or other websites. Links to third-party sites and associated content are intended for informational purposes only and should not be considered investment advice

or recommendations to invest. LMK is not responsible for the terms of use, privacy, or security policies of social media sites you visit, and any usage of these sites is at your own risk and subjects you to the terms and conditions of the site's social media provider.

LMK reserves the right, at any time, to amend the terms and conditions of its social media policies. Associated persons are expected to review, understand, and adhere to the firm's social media policies. Failure to comply with these policies may result in disciplinary measures including fines and possible termination.

AWARDS

Associated persons must disclose to LMK if they are receiving a business-related award. If a representative is paying award providers for the ability to promote themselves as award recipients, the associated person must ensure proper disclosures to the public that payments were made. PRIOR to any purchase, representatives must submit such requests for use of awards to compliance through the Financial Tracking site. The amount that was paid for any awards, plaques, or reprints for any advertisements must be disclosed in the reprints or the articles, near the plaques, or near any other physical awards representations. This must be in a prominent location that is visible. For social media and websites any description of any award received must have a hyper link that goes directly to the disclosure of such award. The disclosures must include a description of the criteria used for the award, any amounts paid for the awards, the number of awards that were granted, whether you are required to be a member of an organization to be eligible to receive the award, and whether the award was independently granted.

General Provisions

Unless specific to job scope requirements, employees are not authorized to and therefore may not speak on behalf of L.M. Kohn & Company through social media or otherwise. Employees may not publicly discuss clients, investment strategies or recommendations, investment performance, other products or services offered by our Firm (or affiliates, if applicable), employees or any work-related matters, whether confidential or not, outside company-authorized communications. Employees are required to protect the privacy of L.M. Kohn & Company, its clients and employees, and are prohibited from disclosing personal employee and non-employee information and any other proprietary and non-public information to which employees have access. Such information includes but is not limited to customer information, trade secrets, financial information and strategic business plans.

Personal Blogs and Social Networking Sites. Bloggers and commenters are personally responsible for their commentary on blogs and social media sites. Bloggers and commenters can be held personally liable for commentary that is considered defamatory, obscene, proprietary or libelous by any offended party, not just L.M. Kohn & Company.

It is L.M. Kohn & Company's policy that no employee may use employer-owned equipment, including computers, company-licensed software or other electronic equipment, nor facilities or company time, to conduct personal blogging or social networking activities. Employees cannot use blogs or social media

sites to harass, threaten, discriminate or disparage against employees or anyone associated with or doing business with L.M. Kohn & Company.

Employees may not post on personal blogs or other sites the name, trademark or logo of L.M. Kohn & Company or any business with a connection to L.M. Kohn & Company. Employees cannot post company-privileged information, including copyrighted or trademarked information or company-issued documents. Employees cannot post on personal blogs or social networking sites photographs of other employees, clients, vendors or suppliers, nor can employees post photographs of persons engaged in company business or at company events.

Employees cannot post on personal blogs and social media sites any advertisements or photographs of company products, nor sell company products and services. Employees cannot link from a personal blog or social networking site to L.M. Kohn & Company internal or external website.

Employees must pay to use the monitoring service from Smarsh, should they choose to utilize any of the social media platforms.

Text Messaging Policy. As L.M. Kohn & Company is unable to capture such communications, no L.M. Kohn & Company business may be conducted via text messaging.

Internet Monitoring. Employees are cautioned that they should have no expectation of privacy while using company equipment or facilities for any purpose, including authorized blogging. Employees are cautioned that they should have no expectation of privacy while using the Internet. Your postings can be reviewed by anyone, including L.M. Kohn & Company. L.M. Kohn & Company reserves the right to monitor comments or discussions about the company, its employees, clients and the industry, including products and competitors, posted on the Internet by anyone, including employees and non-employees. L.M. Kohn & Company uses blog-search tools and software, and/or may engage outside service providers to periodically monitor forums such as blogs and other types of personal journals, diaries, personal and business discussion forums, and social networking sites.

Background

Social media and/or methods of publishing opinions or commentary electronically is a fast growing phenomenon which takes many forms, including internet forums, blogs and microblogs, online profiles, wikis, podcasts, picture and video posts, virtual worlds, e-mail, instant messaging, text messaging, music and other file-sharing, to name just a few. Examples of social media applications include, among others, LinkedIn, Facebook, YouTube, Twitter, Yelp, Instagram, and Yahoo groups. The proliferation of such electronic communications presents new and ever changing regulatory risks for our firm.

For example, business or client related comments or posts made through social media may breach applicable privacy laws or be considered "Advertising" under applicable regulations triggering content restrictions and special disclosure and recordkeeping requirements. Employees should be aware that the use of social media for personal purposes may also have implications for our Firm, particularly where the employee is identified as an officer, employee or representative of the firm. Accordingly, L.M.

Kohn & Company seeks to adopt reasonable policies and procedures to safeguard the Firm and our clients.

Responsibility

The implementation and monitoring of the firm's Social Media policy, practices, and recordkeeping are the responsibility of the Compliance Department. They will conduct social media reviews on a daily basis through the utilization of the Smarsh archiving system.

Procedure

L.M. Kohn & Company has adopted procedures to implement L.M. Kohn & Company's policy, and conducts internal reviews to monitor and ensure that the policy is observed, implemented properly, and amended or updated, as appropriate. These include the following:

- The Compliance Department will conduct e-mail reviews, on a daily basis, through the utilization of the Global Relay archiving system for the monitoring of e-mail and electronic communications;
- L.M. Kohn & Company's e-mail and electronic communications policy has been communicated to all persons within the Firm and any changes in our policy will be promptly communicated;
- obtaining attestations from personnel at the commencement of employment and regularly thereafter that employees (i) have received a copy of our policy, (ii) have complied with all such requirements, and (iii) commit to do so in the future;
- unless otherwise prohibited by federal or state laws, L.M. Kohn & Company will request or require employees provide the the Compliance Department with access to any approved social networking accounts. Furthermore, static content posted on social networking sites must be preapproved by the Compliance Department;
- e-mails and any other electronic communications relating to L.M. Kohn & Company advisory services and client relationships will be maintained on an on-going basis and arranged for easy access and retrieval so as to provide true and complete copies with appropriate backup and separate storage for the required periods;
- establishing a reporting program or other confidential means by which employees can report concerns about a colleague’s electronic messaging, website, or use of social media for business communications;
- the Compliance Department will monitor a random sampling of employee electronic communications (through the utilization of the Global Relay archiving system), surveil social media use by employees (through the utilization of the Smarsh archiving system), and maintain documentary evidence of such surveillance in an applicable location on a daily basis;
- every social media post about our firm must be evaluated and approved by the Compliance Department, including tracking the lifecycle of each social media message, including the exact date and time it was created or deleted, and ensuring that a post meets regulatory standards;
- L.M. Kohn & Company will record the precise actions taken when a message is flagged during a review;
- L.M. Kohn & Company reserves the right to use content management tools to monitor, review or block content on company blogs that violate company blogging rules and guidelines;

- our representatives will receive ongoing training on these rapidly changing platforms, with emphasis placed on:
    - personal versus business communication;
    - the consequences for violating the written rules;
    - which social media posts need to be approved prior to posting; and
    - which posts need reviewing after being posted.
- L.M. Kohn & Company requires employees to report any violation, or possible or perceived violation, to their supervisor, manager or the Compliance department. Violations include discussions of L.M. Kohn & Company, its clients and/or employees, any discussion of proprietary information (including trade secrets, or copyrighted or trademarked material) and any unlawful activity related to blogging or social networking; and
- L.M. Kohn & Company investigates and responds to all reports of violations of the social media policy and other related policies. Violation of the company's social media policy may result in disciplinary action up to and including immediate termination. Any disciplinary action or termination will be determined based on the nature and factors of any blog or social networking post, or any unauthorized communication. L.M. Kohn & Company reserves the right to take legal action where necessary against employees who engage in prohibited or unlawful conduct. If you have any questions about this policy or a specific posting on the web, please contact the Compliance Department.

Registered Personnel

Code of Ethics

Policy Requirements

L.M. Kohn & Company 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 L.M. Kohn & Company, 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 L.M. Kohn & Company, 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).

Maintaining Qualifications Program (MQP)

FINRA has amended the CE rules to provide that effective March 15, 2022, eligible individuals who terminate any representative or principal registration category, including any permissive registration category under Rule 1210.02, have the option of maintaining their qualification for the terminated registration category beyond the current two-year qualification period by completing annual CE through a new program, the MQP. FINRA has also made a related change to Rule 1210.08 to apply the two-year qualification period to certain partial terminations that are currently not subject to the two-year qualification period beginning January 1, 2023. Eligible individuals who elect not to participate in the MQP could continue to avail themselves of the two-year qualification period (i.e., they could reregister within two years of terminating a registration category without having to requalify by examination or having to obtain an examination waiver). MQP participants will have a maximum of five years following the termination of a representative or principal registration category to reregister without having to requalify by examination or having to obtain an examination waiver, subject to satisfying the conditions of the MQP.

The following are the conditions for eligibility in the MQP:

- Individuals must have been registered in the terminated registration category for which they elect to maintain their qualification under the MQP for at least one year immediately prior to the termination of that category and must not have been subject to a statutory disqualification during that one-year registration period.
- Individuals must make their election to participate in the MQP at the time of their Form U5 submission or within two years from the termination of a registration category.
- Individuals must not have been subject to a statutory disqualification between the date of their Form U5 submission and the date they make their election to participate in the MQP.
- Individuals must not have been CE inactive for two consecutive years at the time they make their election to participate in the MQP.

The following are the conditions for participation in the MQP:

- MQP participants must complete annually by December 31 all prescribed CE content.
- MQP participants will have a maximum of five years following the termination of a registration category in which to reregister without having to requalify by examination or having to obtain an examination waiver.
- MQP participants who become subject to a statutory disqualification while they are participating in the MQP may not continue in the MQP.
- MQP participants who become CE inactive for two consecutive years while they are participating in the MQP may not continue in the MQP.

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.

Foreign Deferrals

Background

Foreign deferrals are not granted to individuals residing approximately 350 miles or less from Pearson VUE centers opened in certain cities and whose anniversary requirements opened after March 24, 2004.

Pearson VUE Centers outside the U.S. and Canada that deliver CE Regulatory Element sources can be accessed at http://www.pearsonvue.com/. FINRA's website, www.finra.org, also has information regarding other appropriate Firm Element CE vendors.

Responsibility

Our CCO oversees issues relating to foreign deferrals of registered supervisors and principals from the CE Regulatory Element.

Procedure

Our CCO ensures that all individuals located in foreign countries who are so required, are in compliance with the Regulatory Firm Element of our CE program.

The CCO will apply the same steps as indicated for inactive status under the Continuing Education Program: Regulatory Element Overview section in these WSPs for failure by an individual to complete the program in a timely manner.

Our CCO will maintain a list of individuals who have qualified for the foreign deferral, monitoring the FINRA website and vendors offering FINRA's CE Firm Element to ensure compliance with any changes in the terms of permitted deferrals.

Regulatory Element

CONTINUING EDUCATION: Regulatory Element Contact Person

Background

FINRA Rule 1120 requires that we designate and identify (by name and e-mail address) to the FINRA an individual or individuals responsible for receiving e-mail notifications (provided by WebCRD). The designated individual is Angela B. Boehm at email: angelab@lmkohn.com. Such e-mail notifications will advise us:

- when a registered person is approaching the end of his or her Regulatory Element timeframe
- when a registered representative is deemed inactive due to failure to complete the requirements of the 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, 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 and no later than December 31 each year.

Individuals will be reminded of their window, at certain key dates prior to the firm's deadline.

If an individual fails to complete the CE Regulatory Element component, the individual cannot undertake any activities requiring registration.

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.

For any new registered employee who is inactive at the time of hire, steps will be taken to ensure that no activities requiring registration, and no compensation based on securities-related activities, are permitted until the CE Regulatory Element has been satisfied.

The Compliance Department ensures that the appropriate individual(s) and contact information are disclosed on the FINRA Contact System (FCS).

Responsibility

The Compliance Department ensures that all appropriate registered personnel adhere to the Regulatory Element Continuing Education (CE) requirements.

Procedure

All registered representatives and principals are required to use FINRA's Financial Professional Gateway (FinPro) to complete their Regulatory Element of CE. Before commencing a Web-based session, FINRA requires that each candidate agree to the Rules of Conduct for Web-based delivery. A candidate that violates the Rules of Conduct will forfeit the results of the Web-based session and may be subject to

disciplinary action by FINRA. Beginning January 31, 2023, each covered person registered with FINRA in a representative or principal registration category immediately preceding January 1, 2023 shall complete the Regulatory Element for the registration category annually by December 31 of 2023 and by December 31 of every year thereafter in which the person remains registered.

Each covered person registering with FINRA in a representative or principal registration category for the first time on or after January 1, 2023 shall complete the Regulatory Element for the registration category annually by December 31 of the subsequent calendar year following the calendar year in which the person becomes registered and by December 31 of every year thereafter in which the person remains registered.

While FINRA requires completion by December 31 each year, firms may require its covered persons to complete their Regulatory Element for their registration categories at any time during the calendar year.

The content of the Regulatory Element shall be appropriate to each representative or principal registration category. A covered person shall complete Regulatory Element content for each registration category that he or she holds. The content of the Regulatory Element for a covered person designated as eligible for a waiver pursuant to Rule 1210.09 shall be determined based on the person's most recent registration(s), and the Regulatory Element shall be completed based on the same annual cycle had the person remained registered.

Unless otherwise determined by FINRA, any covered person, other than a covered person designated as eligible for a waiver pursuant to Rule 1210.09, who has not completed the Regulatory Element within the prescribed calendar year in which the Regulatory Element is due will have his or her registration(s) deemed inactive until such time as he or she completes all required Regulatory Element, including any Regulatory Element that becomes due while his or her registration(s) is deemed inactive.

A registration that remains inactive for a period of two consecutive years will be administratively terminated by FINRA. A person whose registration(s) is so terminated or who otherwise fails to complete required Regulatory Element for two consecutive years may reactivate the registration(s) only by reapplying for registration and meeting the qualification requirements.

Further, FINRA Rule 1240 requires that we designate, and provide to FINRA, the name and e-mail address of an individual or individuals responsible for receiving the e-mail notifications provided by WebCRD.

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

All supervising principals will be required to poll all the individuals under their direct supervision monthly to determine whether any amendments are required on their U4 to either report a new disclosure event or to change the status of a currently disclosed event. For any information to which an associated person responds affirmatively, details will be immediately submitted to our CCO who will ensure that amendment is made on WebCRD.

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, every designated supervising principal is responsible for reviewing the exam registrations of the individuals they supervise 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 a copy of the Form U4 prior to its being submitted on WebCRD. The registering individual is also required to sign the document at that time.

On February 23, 2021, FINRA filed a proposed rule change with immediate effectiveness to amend FINRA Rule 1010 (Electronic Filing Requirements for Uniform Forms) to allow firms to file a Form U4 (Uniform Application for Securities Industry Registration or Transfer) based on an electronically signed copy of the form.

The amended rules do not require any particular technology to obtain a valid electronic signature from an associated person. For purposes of the amended rules, a valid electronic signature would be any electronic mark that clearly identifies the signatory and is otherwise in compliance with the E-Sign Act, SEC guidance relating to the E-Sign Act, and guidance provided by FINRA staff.

Annually we will review the registration status of each registered individual, evidenced by initials and dates, generally on the FINRA annual renewal roster.

Quarterly, 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.

Registered personnel are expected 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 designated supervising principal, 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

Responsibility

Our designated supervising principals will ensure that all outgoing e-mails sent by individuals under their direct supervision are appropriate and systematically reviewed for compliance with regulatory issues and with our internal policies and procedures.

Procedure

Commercial electronic e-mail includes e-mail messages primarily used to send an ad or to promote a product or service.

Designated principals are responsible for ensuring that all such commercial e-mails contain the required "opt-out" feature. Any recipients responding with an indication that they do not want to receive any further e-mails must be immediately disclosed to Compliance.

The Compliance Department will ensure that all individuals who have returned a commercial e-mail requesting that they no longer be contacted in such a manner will be added to our "Do Not E-Mail" list, which is kept current and appropriately disseminated or made available on an intranet site or other communal location. Copies of all amended lists are maintained in the files, indicating dates of distribution, manner of distribution, and a list of names and CRD #s to whom the list was distributed.

All L.M. Kohn RR's must use Profitability.net email exchange service. This is easily set up through L.M. Kohn by contacting Timothy Schwiebert at 800-478-0788. All outgoing email must contain - Firm/Branch name and address, name of sender, phone number and email address.

The Compliance Department is responsible for ensuring that commercial e-mails being 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

- Create multiple accounts from which to send commercial e-mail

The Compliance Department must 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
- a valid return address or sufficient information to allow the recipient to “opt out” if they so desire.

Incoming and outgoing email are randomly reviewed on a 10% sample rate including a key word search: ie.. "Guarantee", "Annuity" "Maturity", etc.

Electronic Communications

ASSOCIATED PERSONS: Instant Messaging

Responsibility

Our CCO must ensure that all registered and non-registered personnel are aware of our policies and procedures governing the use of instant messaging, both internally and with customers.

Our designated supervising principals are responsible for ongoing oversight of the individuals under their immediate supervision to ensure that they adhere to all internal policies and procedures regarding the practice of instant messaging with customers or potential customers.

Procedure

It is Firm policy to prohibit the use of Instant Messaging. The designated supervising principals and our CCO (through our Annual Compliance Meetings, routine company-wide reminders and personal instructions) will stress that we prohibit the use of Instant Messaging for any correspondence regarding our activities as a broker/dealer. Documentation of all such instructions will be retained in the files, indicating the method of training (i.e. Annual Compliance Meeting, etc.), dates of such training and dates of attendance for each registered individual.

Instance where it is found that this prohibition was violated will be dealt with on a case-by-case basis. The files will evidence such instances, including the violation, the resulting investigation findings, the dates of such investigations, the name of any individual who was involved in the investigation and any sanctions levied against the violator.

Should we at any time permit our registered employees to utilize instant messaging as a means of communicating with existing or potential customers, policies and procedures guiding such use will be put into place PRIOR to the activity beginning. Supervision of this means of communication will be consistent with our polices and procedures regarding the supervision of all correspondence (“snail mail,” internal and external e-mails, etc.). In addition, to ensure appropriate supervision and enforcement, our CCO would be responsible for documenting that any instant messaging software being utilized has 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 that there is appropriate

(documented) communication with all firm personnel that instant messaging system has been approved for use, and what the policies are governing such communications.

FINRA 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 should we at any time alter our policy on the use of Instant Messages.

ASSOCIATED PERSONS: Internal Email

Responsibility

Our CCO must ensure that our firm adheres to all requirements regarding internal email, and that all such efforts are appropriately documented.

Procedure

SEC 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)*** relating to our securities business.

For all internal e-mails sent through a central server, our CCO will ensure that the material is handled by our routine server back-up, and that the maintenance of such back-ups is at a secure off-site location. All such back-ups are retained for a minimum of six (6) years and must be in such format as to not allow ever being written over or altered in any manner.

All L.M. Kohn RR's and associated persons will have email that is hosted by profitability.net for supervisory review and retention.

Internal e-mails maintained in this manner will be reviewed by our CCO (minimally on a quarterly basis), with such reviews evidenced by initials and dates. Internal e-mails requiring investigation or clarity will be maintained, as well, indicating what the further review uncovered, with dates and initials evidencing such review.

For internal e-mails that do not go through central server, our policy is that each location from which internal e-mail is either generated or received will have a specifically-designated supervising principal assist in the development and oversight of specific written policies and procedures for that location which will ensure that all internal e-mails are appropriately maintained. Our CCO is responsible for ensuring that each such location does in fact have acceptable policies and procedures in place to ensure the maintenance of all internal e-mails, received and/or sent, and that they are being adhered to. Such policies and procedures will be maintained by our CCO, indicating date of inception and a list of those to whom the material was disseminated. Changes to such policies and procedures will also be maintained, indicating the date of such changes and the list to whom it was disseminated.

ASSOCIATED PERSONS: Text Messaging

Responsibility

Our CCO is responsible for ensuring that all affiliated personnel, and their immediate supervisors, are aware of the fact that text messages are deemed by the regulators to fall under the category of correspondence and must therefore have supervisory controls.

Procedure

It is our policy that business-related text messaging, either with customers or with co-workers, is prohibited due to the fact that we have no ability to capture and monitory such electronic correspondence.

Each affiliated person is required to sign a statement indicating that they are aware of, and will comply, with this internal prohibition. In addition, this prohibition is discussed at each year's Annual Compliance Meeting.

Should it be determined that any associated person is not strictly adhering to this prohibition, internal disciplinary actions, including the possibility of termination, will be taken, with documentation of all such actions maintained by our CCO.

ASSOCIATED PERSONS: Messaging Applications

Responsibility

Our CCO is responsible for ensuring that all affiliated personnel, and their immediate supervisors, are aware of the fact that messaging applications are deemed by the regulators to fall under the category of correspondence and must therefore have supervisory controls.

Procedure

Messaging or team collaboration applications such as Microsoft Teams, Slack, Google Keep, WhatsApp Messenger, etc. are STRICTLY PROHIBITED by the firm (for any business related communications) without receiving prior written permission from the firm's Chief Compliance Officer. If such permission is granted, then the content from the site must be captured/archived through the firm's Global Relay system and monitored by the Compliance Department.

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 L.M. Kohn & Company 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).
- Furthermore, the following records will be maintained under the supervision of the CCO in compliance with Exchange Act Rule 17(f)(2):
    a. List of Individuals (name and title) who have successfully been fingerprinted
    b. List of Individuals (name and title) exempted under (a)(1)(iv) of Rule 17(f)(2); and
    c. List of Individuals (name and title) exempted under Exchange Act Rule 17(f)(2)(1)(i)(A)(B)(C).

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.

Rule 9285 authorizes the imposition of conditions or restrictions on disciplined persons (Respondent) during the pendency of an appeal or call for review of a disciplinary decision, where reasonably necessary for the purpose of preventing customer harm. The conditions and restrictions would target the misconduct demonstrated in the disciplinary proceeding and be tailored to the specific risks the associated person poses during the appeal period.

The rule provides that, within 10 days after service of a notice of appeal from, or the notice of a call for NAC review of, a disciplinary decision in which a Hearing Officer or Hearing Panel finds that an associated person violated a statute or a rule provision, the Department of Enforcement may file a motion for the imposition of conditions or restrictions on the activities of the associated person that are reasonably necessary for the purpose of preventing customer harm. The rule further provides that the Hearing Officer who participated in an underlying disciplinary proceeding shall have jurisdiction to rule upon a motion for the imposition of conditions or restrictions.

The rule allows a Respondent to file, within 10 days after service of a Hearing Officer order imposing conditions or restrictions, a motion with the NAC's Review Subcommittee to modify or remove any or all of the conditions or restrictions. In any such motion, the Respondent has the burden to show that the conditions or restrictions imposed are not reasonably necessary for the purpose of preventing customer harm. The rule further provides that the Review Subcommittee has the authority to approve, modify or remove any and all of the conditions or restrictions, and that the filing of a motion to modify or remove conditions or restrictions shall stay the effectiveness of the conditions or restrictions until the Review Subcommittee rules on the motion.

Procedures and Documentation

The activities of any individual requiring heightened supervisions are monitored by a designated supervising principal on a day-to-day basis. 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.

Mike Bell 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

L.M. Kohn & Company must adopt a written heightened supervision plan for an associated person who is found to have violated a statute or rule provision in a disciplinary decision, when that disciplinary decision has been appealed or called for NAC review. This plan shall remain in place until FINRA's final disciplinary decision takes effect. We will:

- address the violations the Hearing Panel or Hearing Officer finds and reasonably design policies and procedures to prevent or detect a reoccurrence of these violations;
- designate an appropriate registered principal who is responsible for carrying out the plan;
- take into account any conditions and restrictions the Hearing Officer or Review Subcommittee imposes; and
- file the written plan with FINRA's Office of General Counsel and serve a copy on the Department of Enforcement and the Respondent, within 10 days of any party filing an appeal or the case being called for review.

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.

Quarterly, our CCO will meet with supervisory principals who are responsible for enforcing heightened supervision over any individuals, to ensure the supervisor fully understands the requirements and continues to accept the heightened supervisory responsibilities.

Our CCO will meet with the supervising principal and 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

REGISTERED PERSONNEL: On-Boarding

Responsibility

Upon a determination being made to hire and register (with FINRA and appropriate state jurisdictions) an individual our CCO, working with Licensing and Registration, Human Resources and/or other appropriate individuals, must ensure that all appropriate steps are taken to ensure compliance with rules and regulations, as well as with our internal policies and procedures.

Procedure

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
- Other "attestations" or documents as required by our internal policies

We will maintain files evidencing that the following pre-registration reviews and steps were taken
- Verify that the individual has completed all required Regulatory Element CE
- Verify through WebCRD that the individual is not statutorily disqualified
- Verify through WebCRD that there is no as-yet-undisclosed disciplinary history
- Verify that the individual to be registered has been added to our CE Firm Element Training Plan
- Verify that the individual to be registered has been added to our AML training roster
- Verify that all appropriate employment background checks have been made

- Verify that the individual to be registered has been assigned to a supervising principal and that both the supervising principal and the individual are aware of this designation
- Verify that the individual to be registered has been added to our to our fingerprint (Exchange Act Rule 17f-2) records
- Documentation that shows the individual to be registered has been advised of his or her role, if applicable, in our Business Continuity Plan

REGISTERED PERSONNEL: Prior to Hiring

Responsibility

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 with the intent

to hire him/her as a registered representative of this broker-dealer, in order to be in compliance with rules and regulations, as well as with our internal policies and procedures.

Our CCO will ensure that all appropriate individuals are made aware of Regulatory Notice 15-05 in order to fully understand that investigation requirements in FINRA Rule 3110(e), as well as the time frame requirements.

Procedure

The following is a checklist of what must be done, and documented, prior to our making a determination as to whether or not we will hire an individual to become a registered representative of this broker-dealer. No individual can be registered with us unless an appropriate principal has indicated, by date and initials, that all the appropriate investigatory steps have been satisfactorily finalized.

- Individuals must make a statement that there are no outstanding complaints or issues about which he or she is aware that might not yet appear on WebCRD. If this statement cannot be made and there are, in fact, some issues which have yet appear on WebCRD, a further investigation must take place before a decision whether to hire is made. We will maintain documentation concerning each individual's statement regarding no outstanding complaints or issues, as well as instances where it cannot be stated. Our documentation will indicate what further actions were taken, by whom, including dates and any findings. If a determination is made to hire the individual, the documentation will also contain our rationale for doing so, indicating whether heightened supervision is required.
- We must obtain written permission from the individual being investigated to conduct a WebCRD search.
- If an individual's status regarding continuing education (CE) is inactive, our CCO, or designated individual, and should we determine that we wish to hire this individual in a registered representative capacity, 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. In addition to the policies and procedures we have internally, implemented by our CCO, supervising principals and/or HR personnel, our verification process must at a minimum, provide for 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.

We have engaged the service of the following Consumer Reporting Agency to conduct our prehire background search:

Background101

2 Corporation Way Ste. 150|Peabody MA | 01960

Sarah Seguin, Senior Account Manager

Phone 866-744-6438 ext. 201 | Fax 714-564-9057

Prior to hiring, applicant must complete and sign the Background101 Acknowledgement and Authorization form and return it to LMK with payment for the processing fee. LMK will request a background search using Background101's online request system. Background101 will commence the search immediately. Typical turnaround is less than a week; however, as outside parties are also involved in the processing there may be occasional delays. Upon receipt of the completed report LMK will compare results with the applicant's Form U4 and conduct any final steps needed to verify the information.

REGISTERED PERSONNEL: Statutorily Disqualified Individuals

Responsibility

Our CCO, working with Licensing and Registration, Human Resources and/or other appropriate individuals, must ensure that we do not hire any individuals, in either a registered or non-registered capacity, who have been statutorily disqualified by FINRA.

Procedure

Statutorily Disqualified Individuals

PRIOR to filing a Form U4 for any individual, our CCO, for a specially designated individual, 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. This broker-dealer will NOT hire any statutorily disqualified individuals. We will maintain documentation of this assessment in the files indicating who undertook the review, the date and the findings.

Screening for Statutorily Disqualified Individuals Hired in Positions That Do Not Require Registration

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. Our principal in charge of hiring will work with our Registration department and Human Resources to ensure that we do NOT hire any individuals who are statutorily disqualified. We will maintain documentation of the reviews undertaken to ensure that any nonregistered individual we have hired has not been statutorily disqualified by FINRA.

Legal Proceedings and Investigations

Disclosure Requirements

Every registered employee must immediately notify the appropriate supervising principal or 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

The Compliance Department 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, the Compliance Department, 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, his or her supervisor, 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, supervising principals 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 supervising principal 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 Mike Bell 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 designated supervising individuals are 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

Everyone's immediate supervising principals 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.

Our CCO 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

On February 5, 2021, Rule 3241 took effect which 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 indication of improper activity or conduct with respect to the customer or the customer's account (e.g., excessive trading); and
8. any indication of customer vulnerability or undue influence of the registered person over the customer.

Cash and Non-Cash Compensation

Policy Requirements

Non-cash 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 pre-conditioned on achievement of a sales target.

We are permitted to provide such non-cash 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 designated supervising principals must make all reasonable efforts to ensure that no inappropriate cash or non-cash compensation is received by any individuals under their direct supervision.

Periodically, our CCO will review all cash and non-cash compensation we receive to ensure that we are not violating any regulations.

- We provide training regarding cash and non-cash 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 non-cash compensation, with the written response, either in the individual's personnel/Form U4 file, or in another appropriate file.

Churning

Background

Churning a client's account (executing transactions solely for the purpose of generating commissions) is STRICTLY PROHIBITED. Uncovered churning activities will result in, minimally, suspension of trading activities for a specified period of time, and in severe or repeat instances, termination.

Turnover is a mathematical ratio which measures how frequently a customer's funds are reinvested from one security to another. While there is no pre-determined turnover ratio which identifies churning because customer investment objectives and investment history must be considered on a case-by-case basis, churning is generally characterized by short-term holding periods and high turnover ratios. Accounts that turn over four times in one calendar year will be evaluated for possible churning.

Churning generally occurs when a representative has direct or indirect control over a customer's account. Direct control exists in discretionary accounts (prohibited for broker/dealers not also registered as investment advisers). Indirect control exists in situations where customers have a high degree of reliance on a representative, generally allowing the representative to transact whatever business the customer feels most appropriate. Such customers are generally unsophisticated and, not understanding the securities market in any depth, rely heavily on their representative's expertise.

Responsibility

The Compliance Department is responsible for ensuring that transactions undertaken by individuals under their direct supervision are reviewed in such a manner as to reasonably deter and detect any instances of illegal churning in a customer account.

Procedure

We utilize Protegent Surveillance (ProSurv) to conduct daily trade reviews for suitability and churning. The system memorializes the designated principal who is reviewing the transactions, along with their associated notes and the time and date of the review. Any transactions involving churning will generate an immediate investigation, documented by additional reviewer notes in ProSurv. If the investigation uncovers instances that appear to have an excessive amount of client activity (i.e., an indication of possible churning), all of the registered representative's accounts will be carefully reviewed. We will maintain documentation of the findings of such investigation and any follow-up measures taken, if any.

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.

Accounts that registered representatives have brought to the attention of their supervising principal because the account has begun frequently initiating its own trades or has dramatically changed its trading techniques will not be deemed to be a churning matter requiring further investigation.

If it is suspected or believed that churning is occurring, the registered representative servicing the account will be contacted by the designated principal and given an opportunity to respond back to explain the particular activity in question. If the activity cannot be justified, the client may be contacted for additional clarifying details about the matter of concern. Based on the information provided/collected, the registered representative may face sanctions ranging from the loss of commissions to a temporary suspension of conducting any activities that require registration. Severe cases may result in termination.

We will document and retain all review and follow-up activities as follows:

- All incoming and outgoing e-mail will be captured in the Global Relay e-mail surveillance system;
- ProSurv "In Progress" notes will indicate any findings that required further review or investigation;
- ProSurv "Resolution" notes will document what was uncovered by further review or investigations; and
- Sanctions placed or reason they were necessary will be retained in the registered representative file.

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 designated supervising principals or 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.
- Supervisory personnel on an ongoing basis, and Compliance/Surveillance at least quarterly, 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 to/from a client/prospective client or an individual employed by any other entity with which we have a business relationship, per calendar year, when the item of value given or received relates to firm business.

Business Entertainment

Entertainment of or by clients for a reasonable cost is not prohibited. Both the host and guest must attend the entertainment together and the entertainment costs must be considered reasonable (i.e., a football game). Reasonable greens fees or admission to a baseball game are examples of reasonable

entertainment. Tickets to the Super Bowl, Masters, NBA Finals, World Series, Pebble Beach greens fees, etc. would not be considered reasonable and are therefore prohibited by the firm.

Procedures and Documentation

Compliance must ensure that all employees are aware of the restrictions on giving/receiving of gifts and/or compensation of any nature.

Under FINRA Rule 3220, all employees are required to submit a request to Compliance through the firm's Complysci (Financial Tracking) system when giving or receiving any business-related gifts/gratuities to/from a client/prospective client or an individual employed by any other entity with which we have a business relationship. This should be done by completing and then uploading the firm's Gift Report Log excel spreadsheet which collects the necessary gift related information for Compliance to review.

All such requests will be reviewed by a Compliance Principal and then placed (and tracked) on the firm's gift and gratuity log. In no instance will any gifts be permitted to exceed $100 for any one individual over a calendar 12-month period. Compliance will maintain the gifts and gratuities log and review it looking for any patterns that may raise concern.

Any gift or gratuity violations will be subject to disciplinary action up to and including termination.

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 Compliance Department is responsible for controls and training over insider trading.

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: Any employee possessing any sensitive or confidential information should promptly report the addition or deletion to the Compliance Department to be placed on a Restricted List.

- Documentation to any additions, deletions, and rationale for such determination will be maintained in the files by our Compliance Department.

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.
    - *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 appropriate supervising principal, Compliance Department, 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 a supervising principal, Compliance Department, or CCO.

Loans Between Registered Persons and Customers

Policy Requirements

FINRA Rule 3240 PROHIBITS registered persons from borrowing money from, or lending money to, a customer.

There are certain limited instances where such borrowing or lending can occur, and we have put into place policies and procedures that will permit us to consider requests for such activities. It is the registered person's responsibility to be fully aware of all such policies and procedures as they relate to any prohibitions or acceptable scenarios.

Compliance will, on a case-by-case basis, consider approval of any such lending and/or borrowing requests ONLY if one of the following five conditions exists:

- The customer is a member of your 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.)
- The customer is in the business of lending money
- The customer and the registered individual are both registered individuals of the same firm
- The lending arrangement is based on a personal relationship outside of the broker-customer relationship
- The lending arrangement is based on a business relationship outside of the broker-customer relationship

If Compliance determines that the lending or borrowing situation falls under one of the above conditions, a determination will be made whether to approve the request. The approval or denial will be made in writing, and ONLY upon such written approval may the registered person engage in the lending or borrowing arrangement.

Failure to adhere to the requirements under Rule 3240, or with this firm's specific internal policies regarding loans between registered persons and customers, may result in disciplinary actions, up to and including termination.

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

In January 2019, FINRA released its 2019 Annual Risk Monitoring and Examination Priorities Letter, where market manipulation was listed as an area of concern. FINRA will 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, Operations department or Compliance, as appropriate, a letter to the account holder, sent to both the old and new addresses. In addition, supervisory principals must contact the account holder by telephone to verify the address change when any registered personnel submits an address change for an existing client. Our registered personnel do NOT have the ability to alter account statements, including any that are maintained online. Address changes may NOT be made effective until the letters have gone to the old and new addresses and the phone call has been made to the account holder.

Changes to Customer Account Information - An account information change may NOT be formalized until we have sent a letter to the client requesting verification, and a supervising principal has made personal contact with the account holder to verify the change. 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.

Outgoing wire customer verification - For outgoing wires, a Home Office supervising principal will verify the transfer or withdrawal directly with the customer by telephone prior to approving the request.

Pre-signed letters of authorization - Pre-signed documents do not provide adequate assurance of authorization from the customer and are prohibited.

Customer Signatures - All third-party wire transfers and checks require principal 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 the supervising principal and, where appropriate, Compliance. In many instances, client contact will be required.

Our CCO, with the assistance of Senior Management and all supervising principals, 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 (OBAs)

Policy

L.M. Kohn & Company's policy allows employees to participate in outside business activities so long as the activities are consistent with L.M. Kohn & Company's fiduciary duty to its clients and regulatory requirements, and the employee provides prior written notice to L.M. Kohn & Company before engaging in such activities.

Prior to beginning such activity, each employee must identify any new outside business activities to the firm's CCO, or other designated officer.

Background

An outside business activity ("OBA") is any business activity outside the scope of a firm where an employee of the firm:

- May be compensated or have the reasonable expectation of compensation;
- Is working with or for a client, regardless of whether compensation is received; or
- Is in a position to receive material non-public information concerning a publicly-traded company.

L.M. Kohn & Company's policies and procedures covering the outside business activities of employees and others represents an internal control and supervisory review to detect unapproved outside business activities and to prevent possible conflicts of interests and regulatory violations.

Responsibility

The Compliance Department has the responsibility for the implementation and monitoring of our policy on outside business activities, disclosures, and recordkeeping.

Procedure

L.M. Kohn & Company has adopted procedures to implement the firm's policy on OBAs and conducts reviews to monitor and ensure the firm's policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- Upon hiring, employees must provide our CCO, or other designated officer, with a list of outside business activities in which the employee would like to continue;
- Current employees must provide written notice prior to beginning any OBA, and include the following information:
    - The activity's start and end date (if applicable);
    - The name of the entity where the activity is taking place;
    - The position title; and
    - A description of the employee's duties and an estimated hours per week that would be dedicated to the activity.
- Upon receiving a written notice, the CCO, or other designated officer, will evaluate the information and give consideration to whether:
    - The activity will interfere with or compromise the employee's responsibilities to L.M. Kohn & Company and our clients; and
    - The activity will be viewed by our clients or the public as part of L.M. Kohn & Company's business based on the nature of the activity.
- Our CCO, or other designated officer, will evaluate each activity and decide on the advisability of imposing specific conditions or limitations or completely prohibiting the activity;
- Any employees engaged in approved OBAs must inform our CCO, or other designated officer, of any changes in, or new conflicts of interest relating to the OBA once the employee becomes aware;

- Annually, our Compliance Department will obtain attestations from employees that they are not engaging in any other outside business activities beyond those that have been disclosed and approved;
- Our Compliance Department conducts email reviews specifically focused on identifying potential OBAs;
- We maintain a list of our employees' current OBAs, which is updated on a consistent basis;
- Our CCO, or other designated officer, will review all employees' reports of outside business activities for compliance with the firm's policies, regulatory requirements, and the firm's fiduciary duty to its clients, among other things; and
- L.M. Kohn & Company will retain documentation in accordance with our applicable recordkeeping requirements.

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 L.M. Kohn & Company'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 Compliance Department responsible for the implementation and monitoring of our political contribution policy, practices, disclosures and recordkeeping.

L.M. Kohn & Company 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 Department requires a "Political Contributions Attestation" form to be completed by it's associated persons which asks questions related to, but not limited to, the following:
    - Dollar amount of contribution(s);
    - Name of candidate(s);

- Name of office(s);
- Election cycle(s); and
- Election date(s).

- the Compliance Department maintains all hardcopies of the completed attestation forms and electronically archives the information on a spreadsheet located in the Rep Database section of the firm's Compliance Drive.
- 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 (PSTs) 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.

In March 2022, FINRA released its 2022 Annual Risk Monitoring and Examination Priorities Letter, where outside business activities and private securities transactions continue to be a priority.

FINRA has listed the following as effective practices:

- Requiring registered representatives and other associated persons to complete upon hire, and periodically thereafter, detailed, open-ended questionnaires with regular attestations regarding their involvement—or potential involvement—in new or previously disclosed PSTs;
- Conducting due diligence to learn about all PSTs at the time of a registered representative's initial disclosure to the firm and periodically thereafter;
- Monitoring significant changes in, or other red flags relating to, registered representatives' or associated persons' performance, production levels or lifestyle that may indicate involvement in undisclosed or prohibited PSTs;

- Considering whether registered representatives' and other associated persons' activities with affiliates, especially self-offerings, may implicate FINRA Rule 3280;
- Clearly identifying types of activities or investments that would constitute a PST;
- Imposing significant consequences—including heightened supervision, fines or termination—for persons who fail to notify firms in writing of their PSTs; and
- Creating checklists with a list of considerations to confirm whether digital asset activities would be considered PSTs.

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.

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.

While FINRA does not prohibit the display of such certificates, it is our policy that such commemorative certificates or plaques may not be utilized by individuals registered with this firm in any location where existing or potential customers may view them.

Procedures and Documentation

Our CCO is responsible for ensuring that all registered employees receive training, either through compliance alerts, at the Annual Compliance Meeting or in any other appropriate manner, regarding this prohibition.

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

Responsibility

Our CCO must ensure that we handle all checks appropriately and do not jeopardize our net capital standing. Furthermore, our CCO will ensure that no checks are misappropriated.

The designated supervising principals must 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.

Procedure

Unless we are approved to receive customer funds, soliciting and/or receiving checks made payable to this broker-dealer would place us in a position of facing a net capital violation and/or a violation of NASD Rule 1017.

While designated principals instruct individuals under their direct supervision to make checks payable to, and send them directly to an appropriate third-party, there will from time-to-time be those clients who misunderstand our instructions and instead send us a check made payable to this broker-dealer.

In such instances, receipt of the check is IMMEDIATELY logged onto our Check & Purchase Sale log and returned to the client with reissue instructions. We maintain copies of all such letters in the client files.

Our CCO must ensure that, at least monthly, our Checks & Purchase Sale Log is reviewed to ensure that we adhere to timely distribution.

Other than payment of advisory fees, there should be very few checks received that have been made payable to this broker-dealer, anything more than an occasional entry will initiate a further investigation to determine why the situation is occurring more frequently than should be expected. We will maintain results of any such investigations in the file.

Individuals we find noncompliant in terms of handling customer third-party checks will be spoken with, and if the non-compliance continues, we will issue sanctions, including the possibility of termination.

Receipt of Checks Payable to a Third-Party

Responsibility

Our CCO must ensure that we handle all checks appropriately and do not jeopardize our net capital standing. Furthermore, our CCO will ensure 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.

Procedure

Our policy is to advise clients to send checks directly to the appropriate third-party (i.e., clearing firm, insurance company, mutual fund, issuer).

With the exception of checks for variable annuity purchases or exchanges, if a client sends a check, made payable to a third-party, directly to us, designated principals will ensure that procedures are followed make certain that the check is sent no later than noon of the following business day to the appropriate third-party.

The designated principal will also ensure that such check is entered onto our Check & Purchase Sale log, along with the date of the check, amount of the check, date received, name of customer, to whom the check was sent and the date of disbursement.

Our CCO must ensure that, at least monthly, our Check & Purchase Sale log is reviewed to ensure that we adhere with timely distribution. Our CCO will document such reviews by initials and dates.

Individuals we find noncompliant in terms of handling customer third-party checks will be spoken with, and if such noncompliance continues, we will issue sanctions, including the possibility of termination.

Checks Received for Variable Annuity Transactions

FINRA Rule 2330 permits a seven (7) business day principal review of 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 ANNUITIES: Recommended Transactions" further in these WSPs).

For broker-dealers with net capital requirements under $250,000, the SEC will exempt broker-dealers 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.

Checks held for the period of review, as ultimately permitted by FINRA Rule 2330 (formerly NASD Rule 2821), by a supervising principal must be transmitted either to the insurance company or returned 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.

We will maintain a home office log "App Log" that includes Variable Annuity checks received, 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 designated supervising principals 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.

Our CCO will review this log at least quarterly, to ensure that all securities are being forwarded on a timely basis.

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.

All registered and non-registered employees of this broker-dealer are made aware of this prohibition, initially upon being hired by us, through ongoing "Customer Relations" and "Cold Calling" training and annually at our Annual Compliance Meeting. We maintain documentation of all such education in our files, indicating dates, manner of delivery and lists of individuals who received such training and/or education.

Unauthorized Transactions

Background

Unauthorized transactions include those transactions 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 a permissible activity, 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 a permissible activity. 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 for the purpose of generating additional commissions. Other fraudulent types of non-customer approved transactions include, but are not limited to, transactions to cover previous failure to follow a customer's advice, or attempts to cover other inappropriate activities within a customer's account.

Responsibility

Our designated supervising principals are responsible for ensuring that the individuals under their immediate supervision do not engage in any unauthorized transactions.

Our CCO is responsible for undertaking appropriate surveillance measures to attempt to detect possible unauthorized transactions.

Procedure

- When hired, all registered representatives are advised in writing of this firm's position towards unauthorized transactions; unauthorized trading is also discussed at each year's Annual Compliance Meeting. All registered employees are aware of the restrictions and prohibitions against unauthorized transactions.
- Protegent Surveillance (ProSurv) is utilized to conduct daily reviews for unauthorized transactions. The system memorializes who reviewed the trade, along with their associated notes and the time and date of the review. Any transactions involving products unauthorized by this firm will generate an immediate investigation, documented by additional reviewer notes in

ProSurv. We will maintain documentation of the findings of such investigation and any follow-up measures taken.

- As it is difficult to detect selling away activities through an internal review process, supervising principals receive training on what to look for in terms of an individual's activities that may be evidence of selling away, and to immediately discuss any concerns with their supervising principal or with our CCO.
- 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.
- With regard to transactions not authorized by a customer, our review procedures rely on specific exception report red flag items that would result in immediate, in-depth scrutiny of the account and the registered representative. We will make notations to the exception reports regarding any such red flag findings, indicating by initials the individual who reviewed the report and undertook the investigation, and the findings. If any corrective measures were deemed appropriate, this will also be documented.
- If we are unable to discern through an investigation of the customer files and representative's records whether the transactions were authorized by the customer, the client will be contacted by an appropriate principal of the firm and asked directly about all transactions that raised concern. The content of that conversation will be documented, indicating the initials of the individual who made the call and the date.
- 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. We will maintain documentation regarding sanctions made against any registered individual in the files.
- Utilizing exception reports, our CCO will oversee surveillance activities designed to detect possible unauthorized transactions, ensuring that appropriate investigations are undertaken and documented.

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

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.

Now operational, the CAT allows regulators to track all trades from their inception, pinpointing buyers, sellers, exchanges and brokers involved. The CAT collects 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 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.

Further, FINRA members can not assume that their clearing firm, or any other entity, will automatically report on their behalf. If an introducing firm elects to have their clearing firm report on their behalf, the firm must have a signed agreement in place and a supervisory system designed to ensure that data reported to CAT on their behalf by their clearing firm is timely, accurate and complete.

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 but this has again been postponed to sometime in 2023. As announced on May 27, 2022, the Plan Participants initially delayed the Full CAIS Compliance Go-Live date from July 11, 2022 to December 12, 2022 to assist in addressing reporting challenges and delays in error feedback and processing and allow time for such issues to be remediated. As subsequently announced on November 22, 2022, the Plan Participants further delayed the Full CAIS Compliance Go-Live date from December 12, 2022 to March 17, 2023. The Full CAIS Compliance Go-Live date will now be further delayed to a date anticipated not to be prior to the second half of 2023.

In the meantime, by no later than November 7, 2022 and going forward, all Industry Members and CAT Reporting Agents must have:

- Started reporting all new FDID Records for Active Accounts to the Production Environment by 8:00 AM ET on the following CAT Trading Day;2 and
- Started reporting all changes and additions to FDID Records for Active Accounts previously accepted by CAIS by 8:00 AM ET on the following CAT Trading Day.

By the Interim Reporting Obligation 4 compliance date/time (which will be no earlier than the second half of 2023), all Industry Members must have:

- Repaired all outstanding rejections for Active Accounts for Full CAIS Phase format submissions to the Production Environment; and
- Resolved all outstanding Material Inconsistencies for Customer Records associated to Active Accounts for submissions to the Production Environment.

At the time of Interim Reporting Obligation 4, Industry Members are not required to repair any rejections or resolve any Material Inconsistencies within the Plan-established deadlines. The requirements to do so will occur effective with the Full CAIS Compliance Go-Live which is yet to be determined and not anticipated to be before the second half of 2023. However, Industry Members and CAT Reporting Agents that are prepared to support rejection repair and Material Inconsistency resolution by the Plan-established deadlines may do so at any time.

The planned validation of FDIDs on order events reported to the transaction reporting system has also been delayed. The validation will be implemented in the Production Environment and Production Mirror Environment at the same time as the new Full CAIS Compliance Go-Live Date, which is to be determined/announced. Compliance statistics on FDID validation errors will not appear in the Transaction Report Card before at least one full calendar month following the new Full CAIS Compliance date. The date the compliance statistics will begin to appear in the Transaction Report Card will also be announced at a later date.

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 reviews of all reported data and verify such data against our transactions. 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.

A Home Office Supervisor (or appropriate designee) will conduct 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

A Home Office Supervisor will also perform daily reviews of the CAT Portal to:

- Review file status to ensure file(s) sent by the member or by their reporting agent was accepted by CAT and to identify/address any file submission or integrity errors;
- Identify late records;
- Identify and repair any data ingestion errors (syntax/semantic rejections) and communicate with RBC, as our reporting agent, to make necessary corrections;
- Identify and repair any linkage errors;
- Review reporting statistics and compare them to firm record counts to ensure that we or our reporting agent has reported all required records;
- Receive communications from FINRA CAT regarding CAT availability, announcements, software releases, etc.; and
- Update and maintain firm contact information.
- Further, we will perform periodic comparative reviews of accepted CAT data against order and trade records and the CAT Reporting Technical Specifications to ensure:
- All reportable records are submitted to CAT;
- Data fields contain accurate information;
- Records are submitted in the correct time sequence (e.g., executions are not time-stamped prior to the receipt of a new order);
- "Handling Instructions" are correctly populated;
- "Account Holder Type" values are populated correctly;
- The "Manual Flag" field is populated correctly; and
- Data is properly reported under the member's "Industry Member Identifier" (IMID).

Rejected Transactions

A Home Office supervisor (or appropriate designee) will periodically review rejected transactions, documenting that all applicable repairs have been made to the rejections by our clearing firm RBC.

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.

A Home Office 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.

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.

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.

A Home Office supervisor (or appropriate designee) 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.

Confirmations

Responsibility

Our CCO ensures that all confirmations generated for securities transactions undertaken by this broker-dealer contain the appropriate information. This is the case whether or not we generate the confirms or another broker-dealer, such as a clearing firm, generates them on our behalf.

Procedure

Confirmation disclosures are regulated under FINRA Rule 2230 and Rule 10b-10 under the Securities Exchange Act of 1934.

FINRA Conduct Rule 2230 requires 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, ***or***
- The fact that such information will be furnished upon customer request, ***and***
- The source and amount of any commission or other remuneration received or to be received by such member in connection with the transaction.

Rule 10b-10 also requires us to send confirmations that disclose specified information as contained in the rule to clients at, or before the completion of, a transaction.

In short, under Rule 10b-10, confirmation information must include all specified transaction details noted in the rule such as the date and time of the transaction or the fact that the time of the transaction will be furnished upon written request to such customer - the identity, price, and number of shares or units, or principal amount, purchased or sold by the customer; and in what capacity we acted.

Our CCO will ensure that we adhere to all the requirements of FINRA Rule 2230 and SEC Exchange Act Rule 10b-10, even in those instances where our clearing firm sends confirmations out on our behalf (in which case, duplicate copies are sent to this firm).

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 in this area, evidenced by initials and dates. If we do not have payment for order flow arrangements, the review of required disclosure is not applicable.

Under the supervision of our CCO, we will review confirmations at least quarterly for all required content, including a comparison to order tickets. We will evidence this review by initials and dates. In instances where we find that appropriate disclosure has not been made, we will further investigate the cause. All such instances will be documented, indicating the findings and any corrective measures taken, if appropriate.

Direct Market Access (SEC Rule 15c3-5): Risk Management Controls

Background

SEC Rule 15c3-5 requires broker-dealers with direct trading or "market" access to an exchange or alternative trading system ("ATS"), or that provide a customer or any other person with access to an exchange or ATS through use of its market participant identifier or otherwise, to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of its market access business.

The Rule applies to transactions by all broker-dealers with market access, and the Rule does not distinguish between transactions for a broker-dealer's own account (including market making activities) and traditional agency transactions.

SEC Rule 15c3-5 applies to any type of arrangement for "market access," which is defined in Rule 15c3-5 as "(i) access to trading in securities on an exchange or alternative trading system as a result of being a

member or subscriber of the exchange or alternative trading system, respectively; or (ii) access to trading in securities on an alternative trading system provided by a broker-dealer operator of an alternative trading system to a non-broker-dealer."

By virtue of the Rule's requirements, unfiltered, or "naked," market access will no longer be permitted. As set forth in SEC Rule 15c3-5, the risk management controls and supervisory procedures must include the elements under "Supervisory Review Procedures and Documentation" below.

In January 2019, FINRA released its 2019 Annual Risk Monitoring and Examination Priorities Letter, where market access was listed as an area of concern.

FINRA will continue to review firms' compliance with Rule 15c3-5, focusing on how firms apply appropriate controls and limits to sponsored access orders; retain the sole authority to determine the boundaries for those controls and limits; test the effectiveness of those controls and limits; and implement and test exception reporting systems covering sponsored access orders.

Responsibility

Our CCO, working with Senior Management and appropriate trading personnel, are responsible, as a team, to ensure that the required control procedures are in effect and being tested, minimally on a quarterly basis, to ensure appropriate and full compliance.

Procedure

1. Financial Risk Management Controls and Supervisory Procedures

- Our procedures to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and this firm and, where appropriate, to more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds are as follows:

  For RBC platforms transactions limited access for order entry is granted by use on a System Access Request submitted by our Compliance Manager, CCO, or President. Additionally our clearing firm sets daily aggregate trading limits for the firm.

For direct applications business all applications are reviewed in the home office by our Compliance Manager, CCO, or President for accuracy and size limits if any.

- Our procedures to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders, are as follows:

  For RBC platforms transactions limited access for order entry is granted by use of a System Access Request submitted by our Compliance Manager, CCO, or President. This access also sets limits by size in dollars, shares or bonds for each each RR and for each authorized order enrty person. Our clearing firm offers an order entry system through "Betalink" or "Wealthstation" that forces a review of each order prior to submission for execution. This review compares the price of the order vs. the previous nights closing price. For direct applications business all

applications are reviewed in the home office by our Compliance Manager, CCO, or President for accuracy and size limits if any.

2. Regulatory Risk Management Controls and Supervisory Procedures

- Our procedures to prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis are as follows:

  For RBC platforms transactions limited access for order entry is granted by use on a System Access Request submitted by our Compliance Manager, CCO, or President. Additionally our clearing firm sets daily aggregate trading limits for the firm.

  For direct application business all orders / applications are reviewed in the home office by our Compliance Manager, CCO, or President for accuracy and size limits if any.

- Our procedures to prevent the entry of orders for securities for a customer, or other person if such person is restricted from trading those securities are as follows:

  The accounts are coded as blocked by our CCO at the clearing firm. We can limit transactions, deposits, withdrawals and transfers under special scenarios.
- Our procedures to restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by us are as follows:

  For RBC platforms transactions limited access for order entry is granted by use on a System Access Request submitted by our Compliance Manager, CCO, or President. Additionally our clearing firm sets daily aggregate trading limits for the firm.

  For direct applications business all orders / applications are reviewed in the home office by our Compliance Manager, CCO, or President for accuracy and size limits if any.

- Our procedures to assure that appropriate surveillance personnel receive immediate posttrade execution reports that result from market access are as follows:

  For RBC based platforms we see the real time "UMG Wires" showing order activity as well as executions that are affirmed by a reviewer. Additionally we use a Sunguard product Pro Surv for all trade reviews on the RBC platforms.

SEC Rule 15c3-5 provides that we may reasonably allocate, by written contract, control over specific regulatory risk management controls and supervisory procedures to a client that is a registered broker-dealer, provided that we have a reasonable basis for determining that such client, based on its position in the transaction and relationship with an ultimate customer, has better access than the broker-dealer with market access to that ultimate customer and its trading information such that it can more effectively implement the specified controls or procedures.

Our CCO will maintain any such written contracts, ensuring that they are updated, minimally on an annual basis.

Our supervisory controls take into account that Rule 15c3-5 provides that any such allocation of control does not relieve us from any obligation under the Rule, including the overall responsibility to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of market access.

Direct Market Access/Sponsored Access: High Frequency Trading

Policy Requirements

SEC Rule 15c3-5 requires broker-dealers to have risk controls regarding their market access. It is intended to address the risks that can arise because of today's automated, rapid electronic trading strategies and bolster the confidence of investors in market integrity. Rule 15c3-5 effectively eliminates the practice known as "unfiltered" or "naked" access to an exchange or an ATS.

From FINRA's March 2, 2010 letter, *"The growth of high-frequency trading in an increasingly automated equities market has placed a heightened focus on sponsored access. Under a sponsored access arrangement, a broker-dealer allows a third party (customers or other broker-dealers) to electronically route orders directly to various market centers, including exchanges and alternative trading systems (ATS), without the active participation of the sponsoring firm. In these types of arrangements, the third party routes its orders directly by using the sponsoring firm's market participant identifier (MPID) to access the trading system. Sponsored access arrangements can vary, including those where the sponsoring firm provides technology to the customer that allows the customer's orders to pass through the sponsoring firm's system of controls (often referred to as "direct market access"). Or, the sponsoring firm can provide the customer with a direct link to an exchange or ATS, such that the customer's orders do not pass through the sponsoring firm's systems (often referred to as "naked" or "unfiltered" sponsored access)."*

Definitions

Market access: (i) access to trading in securities on an exchange or alternative trading system because of being a member or subscriber of the exchange or alternative trading system, respectively; or (ii) access to trading in securities on an alternative trading system provided by a broker-dealer operator of an alternative trading system to a non-broker-dealer.

Regulatory requirements: all federal securities laws, rules and regulations, and rules of self-regulatory organizations, that are applicable regarding market access.

Sponsored Access System: The practice by a member firm ("Sponsoring Member") of providing access to a market to another person, firm or customer ("Sponsored Participant").

As a broker-dealer which has access to trading securities directly on an exchange or ATS (which may include providing sponsored or direct market access to customers or other persons and/or operating an ATS that provides access to trading securities directly on our ATS to a person other than a broker-dealer), we are required to comply with SEC Rule 15c3-5. In January 2019, FINRA released its 2019

Annual Risk Monitoring and Examination Priorities Letter, where market access was listed as an area of concern.

FINRA will continue to review firms' compliance with Rule 15c3-5, focusing on how firms apply appropriate controls and limits to sponsored access orders; retain the sole authority to determine the boundaries for those controls and limits; test the effectiveness of those controls and limits; and implement and test exception reporting systems covering sponsored access orders.

Procedures and Documentation

Our CCO is responsible for ensuring that an appropriate "Risk Management Team" (to include, among others, our CEO and CCO, our Head Trader and all appropriate Operations and other personnel) is formed to develop and oversee supervisory procedures that, among other things, are reasonably designed to (1) systematically limit the financial exposure of this broker-dealer which could arise as a result of market access and (2) ensure compliance with all regulatory requirements that are applicable in connection with market access.

The required financial risk management controls and supervisory procedures must be reasonably designed to

- Prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds;
- Prevent the entry of orders that appear to be erroneous;
- Prevent the entry of orders unless there has been compliance with all regulatory requirements that must be satisfied on a pre-order entry basis;
- Prevent the entry of orders that we or a customer are restricted from trading;
- Restrict market access technology and systems to authorized persons, and
- Ensure appropriate surveillance personnel receive immediate post-trade execution reports.

Our CCO will ensure that appropriate individuals are involved in the establishment of controls that systemically limit financial exposure arising from the trading activity of sponsored participants, such as establishing pre-set credit thresholds for each participant and setting certain price, size or value parameters that would reject orders that exceed the established parameters (e.g., "Fat-Finger" checks).

In addition, the controls and supervisory procedures must include the requirement for a review, at least annually, (specifying how such review will be undertaken, and by whom) of our business activity regarding market access to assure the overall effectiveness of our risk management controls and supervisory procedures (to be documented).

Furthermore, upon the completion of each annual review, our CEO (or equivalent officer) must certify that our risk management controls and supervisory procedures comply with Rule 15c3-5 and that the annual review has been conducted.

Error Accounts

Responsibility

In addition, each registered individual's direct supervising principal has ongoing responsibility to ensure that no transaction is added to our error account in an attempt to cover-up an unethical or illegal action, and that we comply with all policies and procedures regarding our error account.

Procedure

The Compliance Department is responsible for reviewing Error Account records to ensure that no so-called "round trips" (a buy and sell of the same security) have occurred and that there have been no instances of moving one transaction resulting in a long or short securities position being carried in this account for a period of time. 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 our being found to be in net capital violation (any such concerns will be taken up with the FINOP to determine if a net capital violation has occurred).

All reviews will be evidenced by initials and dates, and detailed notes concerning any discussions, and resultant determinations with the FINOP will be maintained in the files.

The Compliance Department has responsibility for determining if transactions transferred by any means from a customer account to an Error Account have not been done so to further, or cover any violation, as those are not permitted to be considered bona fide corrections, cancellations or errors.

Records indicating Error Account reviews undertaken, and any follow-up actions taken due to findings of such reviews, will be maintained by the Compliance Department.

Registered Representatives are required to report errors upon occurrence for immediate correction.

Registered Representatives are liable for any loss and will not profit by any error.

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 and designated supervising principals.

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

Background

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.

Responsibility

Our CCO ensures that we generate all appropriate exception reports to undertake sufficient surveillance of account activity to detect and deter regulatory violations.

Procedure

- All individuals engaged in surveillance activities using our exception reports will receive appropriate training on what the reports mean, how to identify red flags and how to initiate investigations. Our CCO will retain information in our files regarding all such training efforts, including if applicable, meeting agendas, handout materials, etc., and lists of attendees and the training dates.
- **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 3230 requires that our clearing firm submit to us annually a list of all exception reports it issues, or it is able to issue. We must respond each year, indicating those 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 through our clearing firm, our CCO must ensure that we utilize whatever systems possible 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, taking into account the businesses in which we are engaged where our clearing firm cannot offer assistance. Furthermore, our CCO must ensure that trained individuals utilize these exception reports to undertake investigations of possible fraudulent or non-compliant activities.
- Our CCO must also ensure the finalization of all exception reports to uncover questionable activities that require further investigation and possible corrective measures.
- Our CCO will maintain copies of all requests made by us to the clearing firm indicating the reports we require. We will indicate in notations to the file the reports we receive and how we utilize them.
- All correspondence with our clearing firm relating to exception reports and both firms' responsibilities under Rule 3230 will be maintained in our files.
- All exception reports, both internally created and those supplied by our clearing firm, will be reviewed and maintained, indicating by initials and date who undertook the review. In addition, we will maintain as part of our records documentation how each report was utilized and what findings resulted. Any corrective measures taken with regard to problems identified based on these reports will be documented and maintained in the Compliance Department files.
- 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-3 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.

Extended Hours Trading: Risk Disclosure

Policy Requirements

If we allow retail clients to trade stocks after regular market hours in what is known as extended hours trading, we must adhere to the applicable risk disclosure requirements and advertising rules (required by FINRA Rule 2265).

Procedures and Documentation

Our designated supervising principals are responsible for ongoing oversight of any extended hours trading activities and that quarterly we conduct reviews of client files to ensure that clients using extended hours trading have received a disclosure statement concerning risks involved in such extended trading capabilities.

Our CCO reviews the required risk disclosure statement annually to ensure that it discloses all possible risk factors.

The following is our firm's disclosure statement, which will be amended from time to time by our CCO as different products/trading strategies are offered (i.e. options trading, options exercises, the effect of stock splits, dividend payments or any other additional risks that may arise in the future).

Extended Hours Trading Risk Disclosure Statement

- **Risk of Lower Liquidity.** Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. With greater liquidity, it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.
- **Risk of Higher Volatility.** Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended hours trading than you would during regular market hours.
- **Risk of Changing Prices.** The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening the next morning. As a result, you may receive an inferior price in extended hours trading than you would during regular market hours.
- **Risk of Unlinked Markets.** Depending upon the extended hours trading system or the time of day, the prices displayed on an extended hours trading system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive an inferior price in one extended hours trading system than you would in another extended hours trading system.
- **Risk of News Announcements.** Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
- **Risk of Wider Spreads.** The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a security.

Fair and Accurate Credit Transactions Act (FACT Act) Red Flag Rule

Background

Section 114 of the FACT Act (effective 12/31/2010) requires a written program to detect, prevent and mitigate identity theft in connection with 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 in which it 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 made a determination as to whether or not they are required (based on the definitions offered by FINRA in their template, as reproduced below) to comply with the FACT Act's Section 114.

In the development of an appropriate Red Flag Identity Theft Program, the following should be evaluated.

- The BD's accounts that are 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
- 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*
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.*

Responsibility

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, if applicable, or Senior Management to develop, implement and administer the program.

FINRA's "FTC FACT Act Red Flags Rule Template" provides further guidance in determining whether or not we are required to comply with Section 114 and to obtain some guidance in developing an appropriate Identity Theft Protection Program ("ITPP") if we are.

The Compliance Department should ensure (if applicable) the following.

- Develop an Identity Theft Program designed to prevent, detect and mitigate identity theft in connection with new and existing accounts

- Put into place appropriate policies and procedures to assess the validity of an address change request when that request is followed closely by a request for an additional or replacement card
- Develop policies and procedures to respond to notices from credit reporting agencies regarding address discrepancies

Procedure

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.***

(x) 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.*

(x) 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). Our CCO will review this determination on a quarterly basis, 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.

(x) 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 in connection with 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 and specific forms of activity that may be red flags signaling possible identity theft into our program. These red flags will specifically reflect the nature of our business, regulatory guidance and our experience with clients.
2. We will periodically review whether client accounts are considered 'covered accounts' or if new types of accounts would be considered 'covered accounts' under Regulation S-ID. The firm will maintain documentation of this review
3. We will ensure that effective procedures are in place to appropriately and effectively respond to any red flags that are detected. This will include monitoring accounts for evidence of identity theft, contacting the customer, calling law enforcement, changing passwords or other security devices, closing an account, etc.
4. 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.
5. 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 affective 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)

Background

Supplementary Materials to FINRA Rule 2121 apply to debt securities transactions except municipal securities.

In February 2017, the SEC approved amendments to FINRA Rule 2232 that require 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.

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.

Responsibility

Our CCO must ensure that all appropriate supervising principals have a full awareness and understanding of Rule 2121 Supplementary Materials 01 and 02 and Rule 2232 in terms of policies covering markups/markdowns on debt securities.

Procedure

On a monthly basis the CCO, Vice President of Compliance, or the Compliance Manager, on a rotating basis, will conduct a review of a random sampling of confirmations from the previous 30 days to determine whether markups/markdowns have been calculated based on appropriate factors as outlined in Rule 2121 (and its supplementary materials) as well as appropriately disclosed on the client's confirmations. Documentation will be maintained of all such reviews, including dates, names of the individuals who conducted the review, scope of review, findings, and any subsequent actions, on the compliance file on the network.

The CCO will also take steps to investigate transactions where it is not clear all factors were considered and an inappropriate markup/markdown may have been charged. Additionally, the CCO will review the mark-up and mark-down disclosures that fall under Rule 2232.

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.

Large Trader Reporting

Large Trader Reporting

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.

L.M. Kohn & Company's policy and practice is to monitor the volume of trading conducted to determine if and when we become subject to filing Form 13H.

Upon the determination that L.M. Kohn & Company 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) and disclose our status as a large trader to registered broker-dealers effecting transactions on our behalf.

Once designated as a large trader, L.M. Kohn & Company 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.

Margin Accounts

Policy Requirements

FINRA Rule 2264 states that a margin account may not be opened for a non-institutional customer “unless, prior to or at the time of opening the account, the broker-dealer has furnished to the customer, individually, in writing or electronically, and in a separate document the margin disclosure statement specified."

In addition, Rule 2264 requires that we must “with a frequency of not less than once a calendar year, deliver individually, in writing or electronically, the disclosure language" described above.

Procedures and Documentation

Our CCO must ensure that appropriate surveillance activities are undertaken annually to ensure compliance, including initial and annual delivery of margin disclosure statements. Our designated supervising principals must conduct ongoing oversight of all margin account transactions.

Extensions of credit of more than $10,000, except in instances where the extension of credit is secured by an interest in real property, must be maintained separately and reviewed by our AML Principal quarterly to ensure no structuring or other money laundering activities are involved, and must include:

- The name and address of the person to whom the extension is made.
- The amount.
- The nature or purpose.
- The date.
- The margin agreement gives the entity extending the credit the right to pledge, or hypothecate, the customer's securities. Clear consent must be obtained from the customer before lending the customer's securities to this firm or to others.
- Based on reports and information received by our clearing firm, all activity deemed to be unusual or questionable concerning margin extensions filed, sell-outs, buy-ins, margin calls, etc., will be thoroughly and immediately investigated.
- FINRA Rules 4210 (as amended per Regulatory Notices 12-44 and 16-31) and 4120 should be reviewed for (a) customer maintenance margin requirements for certain non-equity securities, (b) definitions of exempt account, and the permission of extension of good faith margin treatment to certain non-equity securities held in exempt accounts, and (c) covered agency transactions, (d) the limit amounts of capital charges a broker-dealer may take in lieu of collecting marked to the market losses and (e) written risk analysis methodology for assessing the amount of credit extended to exempt accounts. Supervising principals will ensure that have access to FINRA Regulatory Notice 10-45, 12-44 and 16-31 and Rules 4210 and 4120.
- Upon opening a margin account, all non-institutional clients must sign a Margin Disclosure Document, which states all the rules with which the client must abide, giving this firm the right to hypothecate the customer's securities at the bank to secure the call loan. Should an initial order be executed in a margin account and a margin agreement not received, the account will be placed on a cash basis.
- Our CCO must ensure that all required annual disclosure statements are appropriately delivered to all non-institutional margin account customers.
- If a customer does not pay in the prescribed time and an extension is not granted, we must sell out the account, selling the securities to cover the margin call, and the account must be frozen. Once an account is frozen, it must remain so for a period of ninety days.
- If a customer with a frozen account wishes to purchase securities in that account, she or he must deposit the full purchase price in the account before the order may be entered.We must have possession of securities prior to executing the transaction if a customer wishes to sell securities in a frozen account.
- Interest charges: Exchange Act Rule 10b-16 prohibits extension of credit unless disclosure of the terms on which interest will be charged is offered to the customer prior to the opening of a margin account. Each margin customer must be provided a Statement of Credit Policy. Such credit policy may be given orally if the written statement is sent to the customer immediately thereafter. A margin account may NOT be opened by telephone without prior written consent of an appropriate designated principal, such approval evidencing review of all required disclosure.

- Quarterly, all margin accounts will undergo rigorous scrutiny and regular review, overseen by the appropriate designated principal.Quarterly, the designated principal will select and contact a random sampling of customers who have opened margin accounts during the previous quarter to ensure compliance. Should any call raise the suspicion of non-compliance or unethical behavior on the part of any of our registered personnel, an investigation will be undertaken, with all relevant information concerning such investigation documented for the files, including any final results.
- If we offer on-line account opening and/or trading services, the designated principal will check our website at least semi-annually to ensure that the disclosure is available in an appropriate, conspicuous manner.

Posting Requirements for Online Accounts

This is not applicable, as L.M. Kohn & Company does not have online accounts.

FINRA Margin Disclosure Statement

Your brokerage firm is furnishing this document to you to provide some basic facts about purchasing securities on margin and to alert you to the risks involved with trading securities in a margin account. Before trading stocks in a margin account, you should carefully review the margin agreement provided by your firm. Consult your firm regarding any questions or concerns you may have with your margin accounts.

When you purchase securities, you may pay for the securities in full, or you may borrow part of the purchase price from your brokerage firm. If you choose to borrow funds from your firm, you will open a margin account with the firm. The securities purchased are the firm's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, the firm can take action, such as issue a margin call and/or sell securities in your account, to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

- You can lose more funds than you deposit in the margin account.
- A decline in the value of securities purchased on margin may require you to provide additional funds to the firm that made the loan to avoid the forced sale of those securities or other securities in your account.
- The firm can force the sale of securities in your account.
- If the equity in your account falls below the maintenance margin requirements under the law, or the firm's higher house requirements, the firm can sell the securities in your account to cover the margin deficiency.
- You will be responsible for any shortfall in the account after such a sale.
- The firm can sell your securities without contacting you.

Some investors mistakenly believe that a firm must contact them for a margin call to be valid and that the firm cannot liquidate securities in their accounts to meet the call unless the firm has contacted them

first. This is not the case. Most firms will attempt to notify their customers of margin calls, but they are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the customer.

You are not entitled to choose which security in your margin account is liquidated or sold to meet a margin call.

Because the securities are collateral for the margin loan, the firm has the right to decide which security to sell to protect its interests.

The firm can increase its house maintenance margin requirements at any time and is not required to provide you with advance written notice. These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause the member to liquidate or sell securities in your account.

You are not entitled to an extension of time on a margin call.

While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.

Customer Margin Balance Forms (Carrying Firms)

Policy Requirements

FINRA Rule 4521(d) requires broker-dealers who carry margin accounts for customers to submit, on a settlement date, as of the last business day of the month:

A. the total of all debit balances in securities margin accounts;
B. the total of all free credit balances in all cash accounts; and
C. the total of all free credit balances in all securities margin accounts.

If the broker-dealer has no information to submit, reports still need to be submitted, with the fact that there is no information to submit noted on the reports.

Reports are due as soon as possible after the last business day of the month, but in no event later than the sixth business day of the following month.

- The data in the report should reflect the status of all accounts on a settlement date basis, as of the last business day of each month.
- A single combined report (including all domestic and foreign main offices and branches) must be submitted.
- Customer balances in the account(s) of guarantors and in the related guaranteed accounts should not be combined.

Rule 4521(d) requires that broker-dealers must only include free credit balances in cash and securities margin accounts in the report. Balances in short accounts and in special memorandum accounts (see

Regulation T of the Board of Governors of the Federal Reserve System) are not considered free credit balances:

- "Balances in short accounts" refers to balances derived from the proceeds of short sales.
- Credit balances in cash accounts and securities margin accounts are considered free (withdrawable) when the firm has no lien or claim against them, nor has imposed any other encumbrance, irrespective of whether the same customer has offsetting debits in another account.

Lastly, Rule 4521(d) requires that reported debit or credit balance information not include the accounts of other FINRA broker-dealers, or of the associated persons of the broker-dealer submitting the report where such associated person's account is excluded from the definition of "customer" pursuant to Exchange Act Rule 15c3-3.

FINRA will post the data collected pursuant to FINRA Rule 4521(d), also in aggregate form, on FINRA's Web site.

Procedures and Documentation

As a broker-dealer which carries margin accounts for customers, our CCO, working with the designated principal is responsible for overseeing all margin-related matters.

Monthly and no later than the 6th business day after each month's end, our CCO will verify that we have filed all appropriate information on FINRA's "Customer Margin Balance Forms" (available at www.finra.org/firmgateway).

Our CCO and other members of senior management know unless FINRA grants us a specific temporary extension of time, a late fee of $100 will apply for each day (for a period not to exceed ten business days) that information required pursuant to Rule 4521(d) is not timely filed.

Monthly our CCO will ensure that three reports have been submitted

A. Total of all debit balances in securities margin accounts;
B. Total of all free credit balances in all cash accounts; and
C. Total of all free credit balances in all securities margin accounts.

If there is no relevant data to be reported, our CCO will review to determine that appropriate reports indicating that fact have nonetheless been submitted.

Customer Margin Balance Forms (Introducing Firms)

Policy Requirements

FINRA Rule 4521(d) requires broker-dealers which carry margin accounts for customers to submit, on a settlement date basis, as of the last business day of the month:

A. the total of all debit balances in securities margin accounts;

B. the total of all free credit balances in all cash accounts; and
C. the total of all free credit balances in all securities margin accounts.

If the broker-dealer has no information to submit, reports still need to be submitted, with the fact that there is no information to submit noted on the reports.

Reports are due as promptly as possible after the last business day of the month, but in no event later than the sixth business day of the following month:

- The data in the report should reflect the status of all accounts on a settlement date basis, as of the last business day of each month.
- A single combined report (including all domestic and foreign main offices and branches) must be submitted.
- Customer balances in the account(s) of guarantors and in the related guaranteed accounts should not be combined.

Rule 4521(d) requires that broker-dealers must only include free credit balances in cash and securities margin accounts in the report. Balances in short accounts and in special memorandum accounts (see Regulation T of the Board of Governors of the Federal Reserve System) are not considered free credit balances:

- "Balances in short accounts" refers to balances derived from the proceeds of short sales.
- Credit balances in cash accounts and securities margin accounts are considered free (withdrawable) when the firm has no lien or claim against them, nor has imposed any other encumbrance, irrespective of whether the same customer has offsetting debits in another account.

Lastly, Rule 4521(d) requires that reported debit or credit balance information not include the accounts of other FINRA broker-dealers, or of the associated persons of the broker-dealer submitting the report where such associated person's account is excluded from the definition of "customer" pursuant to Exchange Act Rule 15c3-3.

FINRA will post the data collected pursuant to FINRA Rule 4521(d), also in aggregate form, on FINRA's Web site.

Procedures and Documentation

As a fully disclosed, introducing broker-dealer we do not "carry" margin accounts for customers. Our clearing firm is the carrying broker-dealer.

We are, however, aware that we are not absolved from following FINRA Rule 4521(d) and that we have a responsibility to ensure our clearing firm is acting appropriately on our behalf.

Our CCO will ensure that we obtain from our clearing firm

- An addendum to our clearing agreement or a letter/memo from our clearing firm stating that they will submit "Customer Margin Balance Forms" on our behalf; and

- A copy of their WSPs outlining their oversight responsibilities under 4521(d).

Monthly and no later than the 6th business day after each month's end, our CCO will require verification from our clearing firm (in whatever form or manner offered by the carrying broker-dealer) that appropriate filings have been submitted, reviewing the reports for accuracy, completeness and timeliness.

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
- Good-till-cancelled orders, kept in a separate file, are checked daily
- All good-till-canceled orders are checked individually by account number daily

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.

Prior to approving a limit order, the designated supervising principal will evidence review, by initials and dates, indicating that appropriate steps have been taken.

Quarterly , our CCO 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.

Annually, our CCO will ensure that the firm undertakes a review of all open-order transactions, documenting such review for the files, indicating dates, names of individuals who undertook the review, scope of the review, findings and any corrective measures taken.

Order Routing Disclosures: Introducing Broker-Dealers

Policy Requirements

Rule 606 of Regulation NMS requires broker-dealers to disclose to investors information about the way they handle investors' orders.

The Rule requires 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 disclosures provide the customer with information about the average rebates the broker received from, and fees the broker paid to, trading venues.

Rule 606 requires all broker-dealers that route orders in equity and option securities to make available quarterly reports that present a general overview of their routing practices. The reports must identify the significant venues to which customer orders were routed for execution during the applicable quarter and disclose the material aspects of the broker-dealer's relationship with such venues. The amended Rule includes enhancements to the quarterly public reports, which must now describe any terms of payment for order flow arrangements and profit-sharing relationships, among other things.

- The Rule requires broker-dealers to provide customers on request, a written copy of the report of the venues to which the customer's individual orders were routed.
- Rule 606(b)(3) requires broker-dealers to provide a customer, upon request, a report on the broker-dealer's handling of the customer's NMS stock orders submitted on a not held basis for the prior six months, divided into separate sections for a customer's directed orders and non-directed orders.
- The requirement to provide a report on the handling of not held orders to customers will be subject to two de minimis exceptions, one at the firm-level and the other at the customer-level. Specifically, a broker-dealer is not obligated to provide the report to any customer if not held NMS stock orders constitute less than 5% of the total shares of NMS stock orders that the broker-dealer receives from its customers over the prior six months. In addition, a broker-dealer is not obligated to provide the report to a particular customer if that customer trades through

the broker-dealer on average each month for the prior six months less than $1,000,000 of notional value of not held orders in NMS stock. Under the firm-level de minimis rule, the first time a broker-dealer meets or exceeds the firm-level de minimis threshold, there is a grace period of three months before the broker-dealer becomes subject to Rule 606(b)(3).

- For purposes of the Rule, the term "customer order" is defined as any order that is not for the account of a broker-dealer.
- The definition of "customer order" excludes any order for a quantity of a security having a market value of at least $50,000 for options orders.
- The term "covered securities" includes exchange-listed equities and NASDAQ National Market securities as well as NASDAQ Small-Cap equities and listed options.
- Large orders are excluded in recognition that a general overview of order routing practices is more useful for smaller orders that tend to be homogeneous.
- Rule 606 applies to all types of orders (e.g., pre-opening orders and short sale orders), but broker-dealers must give an overview of their routing practices only for non-directed orders.

As all our order flow is routed to our clearing firm, our CCO must obtain an electronic file containing the required disclosures from the clearing firm and each market center if we route orders to both our clearing firm and various market centers for posting to the appropriate web site (i.e., the clearing firm's website, our website, a third-party website, etc.).

Required Market Center Disclosures

Every broker-dealer must create a quarterly report on its routing of non-directed orders in NMS stocks that are submitted on a held basis and of non-directed orders that are customer orders in NMS securities that are option contracts during that quarter broken down by calendar month. The report must be available within one month after the end of the quarter addressed in the report and posted on an internet website that is free and readily accessible to the public for a period of three years from the initial date of posting.

Each section in a report shall include the following information:

i. The percentage of total orders for the section that were non-directed orders, and the percentages of total non-directed orders for the section that were market orders, marketable limit orders, non-marketable limit orders, and other orders;
ii. The identity of the ten venues to which the largest number of total non-directed orders for the section were routed for execution and of any venue to which five percent or more of non-directed orders were routed for execution, the percentage of total non-directed orders for the section routed to the venue, and the percentages of total non-directed market orders, total non-directed marketable limit orders, total non-directed non-marketable limit orders, and total non-directed other orders for the section that were routed to the venue;
iii. For each venue identified, the net aggregate amount of any payment for order flow received, payment from any profit-sharing relationship received, transaction fees paid, and transaction rebates received, both as a total dollar amount and per share, for each of the following non-directed order types:
    - Market orders;

- Marketable limit orders;
- Non-marketable limit orders; and
- Other orders.

iv. A discussion of the material aspects of the broker-dealer's relationship with each venue identified, including a description of any arrangement for payment for order flow and any profit-sharing relationship and a description of any terms of such arrangements, written or oral, that may influence a broker-dealer's order routing decision including, among other things:
    - Incentives for equaling or exceeding an agreed upon order flow volume threshold, such as additional payments or a higher rate of payment;
    - Disincentives for failing to meet an agreed upon minimum order flow threshold, such as lower payments or the requirement to pay a fee;
    - Volume-based tiered payment schedules; and
    - Agreements regarding the minimum amount of order flow that the broker-dealer would send to a venue.

Procedures and Documentation

Our CCO ensures our full compliance with the order routing disclosure requirements under Regulation NMS (specifically herein Rule 606).

We will have the order handling and routing reports on our website directly linked to RBC Correspondent Services (www.rbcclearingandcustody.com/legal/sec-order-handling-disclosure), as they report and route all orders on our behalf.

The CCO will oversee the undertaking of a quarterly review to determine whether we have posted all required trading data to the appropriate website. Annually, the CCO will ensure that we have made all required customer disclosures and annual notifications in a timely manner.

Our CCO will also oversee the reviews of vendor data prior to submission to our vendor, including:

- Published bids, offers, and quotation sizes; and
- Transaction reports and last sale data to ensure inclusion of the marketplace where each transaction was executed.

Order Tickets/Investor Questionnaires/Subscription Agreements/Applications

Procedures and Documentation

Our designated supervising principals will ensure that the individuals under their immediate supervision have placed all required information on their order tickets, or other similar documents such as subscription agreements, investor questionnaires, applications, etc.

In an annual review, our CCO will ensure that order tickets are being handled appropriately.

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.

A supervising principal 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.

In addition, we will review transactions involving non-Nasdaq securities to ensure the order ticket contains the name of each dealer contacted and the quotations received to determine the best inter-dealer market, such review evidenced by signature or initials and date.

Our CCO will ensure that we undertake an annual review of order tickets to ensure full compliance, documenting such review for the files, including dates, names of individuals who undertook the review, findings and appropriate follow-up actions.

Order Tickets: Short Sale Indications

Procedures and Documentation

Our designated supervising principals will ensure that order tickets, or other similar documents such as subscription agreements, investor questionnaires, applications, etc., contain all appropriate information.

Our CCO will ensure our full compliance with all Regulation SHO (short sale) requirements.

- We will indicate on the memorandum for the sale of any security whether the order is long, or short.
- An order may be marked long if the account is long the security involved, or the client owns the security and agrees to deliver same as soon as possible without undue inconvenience or expense.
- The criteria for accepting long or short sales is found in the SEC Regulation SHO Locate and Delivery provision.
- To adhere to this provision, we must indicate on the order ticket at the time the order is taken, documentation of the conversation with the customer about (a) the present location of the securities in question, (b) whether they are in good deliverable form, and (c) the client's ability to deliver them to us within three business days.

Review procedures utilized for the above and other Regulation SHO requirements can be found in other Short Sale sections within these WSPs.

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 requiring the supervising principal to have a discussion with the registered individual who failed to comply, a requirement for additional training, withholding of commissions, internal fines, etc.

Trade Shredding

Policy Requirements

"Trade Shredding" is the practice of splitting customer orders for securities into multiple smaller orders (e.g., a 1,000 share order is split into ten 100-share orders) for the primary purpose of maximizing payments or rebates to the broker-dealer.

FINRA indicated in Notice to Members 06-19 that *"concerns have been raised about market participants increasingly engaging in the practice of trade shredding to increase their share of market date revenues under the joint industry plans where a plan participant has adopted a practice of sharing its plan revenues with market participants that send it orders."*

To address these concerns, the SEC adopted Regulation NMS, which contains amendments to the current plan formula used to allocate plan income. Notice to Members 06-19 continues, *"Although these (Regulation NMS) modifications in plan formulas reduce the incentives for trade shredding, FINRA Rule 5290 (previously NASD Rule 3308) was proposed and approved to prohibit such practices."*

Procedures and Documentation

Our CCO must ensure that sufficient monitoring and oversight procedures are in effect to uncover any instances of trade shredding.

Our CCO will ensure that an appropriate principal reviews our daily Purchase and Sales blotters each following day to detect instances of trade shredding. Any blotter entries suspected of indicating trade shredding will be brought to the attention of the supervising principal of the individual who was involved in the possible shredding. If, after an appropriate investigation, shredding was found to have occurred, the individual responsible will be sanctioned, including the possibility of termination.

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)

Short Sales: Regulation SHO

Policy Requirements

Regulation SHO is intended to curb abusive “naked” short selling, (i.e., selling short without borrowing the necessary securities to make delivery) and includes provisions to:

- Establish uniform "locate" and "close-out" requirements to address problems associated with failures to deliver, including potentially abusive "naked" short selling; and
- Create uniform order marking requirements for sales of all equity securities.

In January 2019, FINRA published its Annual Risk Monitoring and Examination Priorities Letter, where FINRA announced plans to focus on short sales, including whether firms have structured their aggregation units in a manner that is consistent with the requirements of Rule 200(f) of Regulation SHO and can demonstrate the independence of the units through measures such as separate management structures, location, business purpose, and profit and loss treatment.

Procedures and Documentation

We must mark all equity sell order tickets as “long” or “short” as required by Exchange Act Rule 242.200(g), under SEC Regulation SHO.

Locate and Delivery Requirements: Short sale orders in an equity security may not be accepted from another person or firm unless we:

- Borrowed the security, or entered into an arrangement to borrow the security; or
- Have reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due; and
- Have documented compliance with the above provisions

To facilitate meeting the borrowing requirements indicated above, the SEC stated in a “Frequently Asked Questions on SHO” that broker-dealers may use “easy to borrow” reports, or other similar reports, showing securities available for loan.

There are a number of exemptions from the above requirements as follows:

- Orders from another registered broker or dealer that is required to comply with the above requirements (i.e., Regulation SHO Rule 242.203(b)(1));
- Any sale of a security that a person is deemed to own, provided that, in the case of restricted securities, reasonable information has been obtained that the person intends to deliver such security as soon as all restrictions on delivery have been removed. If the person has not delivered such security within 35 days after the trade date, we must borrow securities or close out the short position by purchasing securities of like kind and quantity;
- Short sales effected by a market maker regarding bona-fide market making activities in the security for which this exception is claimed; and
- Transactions in security futures.

The designated principal will make appropriate dated notations to the files regarding how determinations were made that the “locate and delivery” requirements were met.

Threshold Securities Fail to Deliver

Rule 242.203(b) under Regulation SHO of the Exchange Act covers requirements concerning threshold security fails to deliver buy-ins.

A threshold security is defined as any equity security of an issuer that is registered under Section 12 of the Exchange Act, or that is required to file reports pursuant to Section 15(d) of the Exchange Act where for five consecutive settlement days: (1) there are aggregate fails to deliver at a registered clearing agency of 10,000 shares or more per security; (2) the level of fails is equal to at least one-half of one percent of the issuer's total shares outstanding; and (3) the security is included on a list published by a self regulatory organization.

Fail to deliver positions in a threshold security, open for thirteen settlement days, or for ten settlement days plus T-3 for the total of thirteen days, must be closed out by our purchase of securities of like kind and quantity.

Until a position is closed out, registered representatives may not affect further short sales in a threshold security without first borrowing or entering into a bona fide arrangement to borrow the security.

The designated Short Sale Principal will review Regulation SHO Rule 242.203(b)(3) for certain close out exceptions.

The designated principal will ensure that:

- All order tickets are reviewed to ensure appropriate marking of all short sale information. The review will be evidenced by initials and dates.
- To comply with the locate and delivery requirements, all short sale orders: will be reviewed against the “easy to borrow list” or other similar source to determine that the securities can be borrowed for delivery, evidenced by dates and initials, or we will receive a verbal confirmation from Operations that the security can be borrowed, evidenced by a dated and initialed note to the file indicating the name of the person (and the firm name) from whom the affirmation is obtained and the number of shares to be borrowed.
- We will review all short sale order tickets daily against the most recent list of threshold securities issued by FINRA, NYSE or other SRO to ensure that any fail to deliver position open for thirteen settlement days is closed out. We will maintain documentation of this review, evidenced by initials and dates. Until it is closed out, all registered representatives and their supervisors are advised that no further short sales will be permitted in that certain security without our first having borrowed or entered into a bona fide “borrow” arrangement.

Circuit Breaker

Responsibility

Our head equity trader, working with Compliance, is responsible for ensuring that when Regulation SHO's circuit breaker for an NMS stock kicks appropriate procedures are in place to prevent the execution or display of short sale orders at a price that is less than or equal to the current national best bid (NBB) for the remainder of the day and the following day, unless an exemption applies ("short sale price test restriction").

Circuit breakers are triggered by a 10 percent or more decrease in the price of the security from the security's closing price at the end of regular trading hours on the prior trading day).

Procedure

Oversight of our circuit breaker procedures includes the following:

On-going review to ensure that trade reports submitted to a FINRA facility indicate if a transaction is "short exempt" consistent with Regulation SHO. FINRA Regulatory Notice 10-48 will also be reviewed to ensure complete understanding of what is short exempt and what is required under the "short sale price test" restriction). On-going review to ensure that when an order is received or originated, it is reciorded as a designation of "short sale exempt" if the order is marked "short exempt" for Regulation SHO purposes. Also, if applicable, the price at which the order is routed and a short exempt identified must be included on route reports.

Documentation of all reviews will be maintained, indicating the date of the review, the scope of the review, the name of the individual(s) conducting the review and any findings.

Clearing and Settlement

Clearing Agreements: Fully-Disclosed Introducing BD

Responsibility

Our CCO is responsible for ensuring that we are in compliance with all applicable rules and regulations regarding any clearing agreements into which we enter, clearing through RBC Correspondent Services.

Procedure

Our CCO is responsible for ensuring that the following language is contained 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 (RBC Correspondent Services) and not customers of (L.M. Kohn & Company). Nothing herein shall cause (L.M. Kohn & Company)'s customers to be construed or interpreted as customers of (RBC Correspondent Services) 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."*

Furthermore, when reviewing customer account statements, we will ascertain that they contain the requisite language that adheres to the SEC interpretation, such as:

> *"(RBC Correspondent Services) carries your account and acts as your custodian for funds and securities deposited with us directly by you, through (L.M. Kohn & Company) or as a result 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 (800-478-0788). All other inquiries regarding your account or the activity therein should be directed to (L.M. Kohn & Company)."*

We will also ensure that our clearing firm is complying with FINRA Rule 2340 which requires that customer account statements include an advisory notice to customers requesting that they "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 is on the same screen as the account statement. Neither we nor our clearing firm would be deemed to be in compliance with 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 which party is responsible for:

- 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

Furthermore, upon the opening of a customer account to be introduced on a fully-disclosed basis, written notification of the fact that a clearing agreement is in effect must be made in writing to the customer. Our CCO will identify, from the clearing agreement (required to identify the party responsible for providing such written notification) the responsible party for making such disclosure.

If the clearing firm has the responsibility (under the clearing agreement), we will undertake appropriate due diligence to ensure such disclosures are, in fact, made.

If we, the introducing firm, are responsible for the disclosure, appropriate files will be maintained (in the Compliance Office under the supervision of our CCO) to document our compliance.

Our CCO is also responsible for submitting Clearing Agreements to FINRA for review and approval if any changes/amendments are made or if we enter into any new agreements. Copies of all clearing agreements sent to FINRA, with copies of FINRA response, will be maintained in the files. Also maintained will be evidence of changes made to the agreements as deemed necessary by FINRA upon their review.

Assets of Introducing Broker/Dealer Held by Clearing Firm: Larry Kohn is responsible for ensuring 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, Larry Kohn is responsible for treating assets in our proprietary account accordingly (either as allowable or non-allowable assets), depending on the existence of an appropriately worded PAIB letter.

Larry Kohn is also responsible for adhering to FINRA requirement that, within two days of entering into any new PAIB agreement, we must notify our FINRA District Office, in writing, advising them that we have entered into such an agreement with our clearing firm.

Even if we do not maintain a proprietary trading account, a PAIB agreement is still required for us, as an introducing, fully-disclosed broker/dealer to treat our deposit at the clearing firm as an allowable asset for net capital computation purposes. Larry Kohn is responsible for ensuring 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 (a) we have established and (b) will maintain and enforce written procedures with respect to the issuance of negotiable instruments.

Larry Kohn is responsible for maintaining and enforcing such procedures, and for reporting any problems or breaches of procedure to our CCO. Included must be clear safeguards and procedures, which the clearing firm has agreed are satisfactory, which will be in effect when we are issuing such checks.

Minimally, the following must be adhered to:
(a) the bank account from which checks are issued must be in the name of the clearing firm,
(b) the written contract between us and the clearing firm must specify that we are acting as agent for the clearing firm, and
(c) 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 FINRA in 1993, states that *"as an alternative to not debiting a customer's account, FINRA member firms are permitted to reduce debits in their Reserve Formula by an amount equal to outstanding customer checks."*

Larry Kohn is responsible for acting as liaison with our clearing firm to ensure that all necessary safeguards are taken at all times and that the clearing firm continues to be satisfied by our Written Supervisory Policies & Procedures covering this activity.

Minimally, on an annual basis, our clearing firm will be requested to attest 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 such time as we and the clearing firm have reached a satisfactory agreement to continue such activity.

Clearing Arrangements: Piggybacking

Policy Requirements

Piggyback clearing occurs when a broker-dealer contracts for clearing services with an introducing or an intermediary firm that, in turn, contracts directly with a clearing firm for clearing services.

Under such an arrangement, only the intermediary firm has a contractual arrangement with the clearing firm, which clears for both the intermediary firm and the intermediary firm’s piggybacking firm.

Piggyback clearing arrangements often make it impossible for FINRA to distinguish between reported data belonging to the intermediary firm and data belonging to the piggybacking firm for purposes of conducting surveillance.

This inability to separate the piggybacking firm data has become a serious issue if an intermediary firm goes into Securities Investor Protection Corporation (SIPC) liquidation. If the data from the intermediary and piggybacking firms are not distinguishable, the clearing firm will be unable to facilitate the orderly

transfer of accounts without doing time-intensive research and creating a special program to separate accounts belonging to the intermediary firm and its piggyback firm.

Procedures and Documentation

The Compliance Department will ensure that, if at any time we act as an intermediary clearing firm for another broker-dealer, we appropriately maintain all data relating to the firm for which we are acting as an intermediary.

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.

At least annually, 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

Responsibility

The Compliance Department will ensure that we have adequate signature guarantee policies and procedures, including the maintenance of signature guarantee stamps, and appropriate surveillance activities to ensure that we adhere to these policies and procedures.

Our designated supervising principals will oversee all signature guarantee activities in which individuals under their direct supervision are involved.

Procedure

Signature guarantees are required in all instances when stocks, bonds or other registered securities are transferred from a seller to a buyer. Signature guarantees are to 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.

All signature guarantees must receive approval by a Supervising Principal, and no signature guarantee is to be approved without a comparison being made to the new account document files for validation purposes.

The Compliance Department will ensure that as part of all internal audits and reviews (including branch offices if applicable) a determination is made as to the level of security under which Signature Guarantee stamps are maintained and how access is limited only to authorized guarantors. In addition, reviews will ensure that all required signature guarantees have been obtained and approved by an appropriate principal.

The Compliance Department is responsible for maintaining a list of those individuals authorized to guarantee signatures and for ensuring that all designated supervising principals have access to that list.

As of 9/19/07, all persons authorized to use the Medallion Signature Guarantee imprint devices must be Certified Guarantors. In order to become certified, each individual must log on to www.STAMPeSource.com and complete all six training modules with a score of 100% on each section in order to pass. Additionally, you must be approved by the CCO to become a Guarantor. This certification must be completed by new Guarantors prior to receipt of their STAMP imprint device.

Each Guarantor must retain a log of each time their imprint device is used, along with copies of the document guaranteed and the supporting documentation viewed to determine that the client is the correct one to sign for the transaction requested. These logs should be maintained at the Guarantor's office and should be available for review to any L.M. Kohn & Company supervisor during an audit, or any other time it is requested.

For each imprint, the following must be verified:

1. L.M. Kohn & Company or the Guarantor must have a continuing relationship with the person requesting the Guarantee.
2. The Guarantor must view a photo ID for the person requesting the Guarantee.
3. The Medallion Guarantee device should only be used in transactions involving the transfer of ownership for securities.
4. The Guarantor must retain a copy of the evidence of ownership for the account (i.e. statement or stock certificate).
5. All owners for the account must be present to sign at the same time.
6. All signatories to be guaranteed must have attained the age of majority and appear to be in control of their affairs.
7. If the person signing is someone other than the registered owner, the Guarantor must retain a copy of their legal capacity to sign for the registered owner.
8. The Guarantor must retain a copy of all documents examined, and the document that was guaranteed.
9. The Guarantor must confirm that the dollar amount of the transfer is covered by their STAMP limit. For outside offices, that limit is $100,000.00.
10. NEVER guarantee an incomplete form or document.
11. NEVER date a Medallion Signature Guarantee imprint.

Each person who wishes to become a Certified Guarantor must be approved by the CCO to become a Guarantor. This certification must be completed by new Guarantors prior to receipt of their STAMP imprint device. Generally only registered principals will be approved for this service.

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)

Background

CDs are typically issued by a bank, directly to a customer, carrying a fixed interest rate for a fixed duration of time, insured by the Federal Deposit Insurance Corporation ("FDIC") against depository institutional insolvency, and as such are generally considered to be a simple and conservative product, carrying few risks.

More and more, however, non-traditional CD products are being offered to investors; products which are more complex and which carry more risk. These are generally referred to as "long-term" CDs. They generally have a maturity of several years (in some instances, as long as twenty years) and sometimes carry a higher yield than an FDIC-insured CD. They may also, however, have any number of additional features affecting 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 and subject to transactions costs not typically associated with a traditional CD.

Depending upon various factors, these non-traditional CD products can, from a legal standpoint, be considered securities. However, regardless of whether the product is a security or not, this broker/dealer takes seriously its responsibility to ensure that our registered personnel understand the products and can adequately and clearly disclose to customers all product characteristics and risk factors (i.e. possible loss of principal, call features, insurance issues, etc.)

Equity Linked Certificates of Deposits / Principal Protected Structured Investments

Principal Protected Structured Investments combine the potential of long term growth based on an underlying asset, a basket of assets or even indexes with the safety and security of full principal protection. Instead of paying a fixed rate of interest, a principal protected note provides a return at maturity based on the appreciation of an underlying asset or basket of assets, such as a US or international equity market index, one or more commodities, or virtually any other financial benchmark. While the interest the investor will receive is uncertain, and could be zero, the return of the initial investment amount at maturity is assured, subject to the credit quality of the issuer, regardless of the performance of the underlying assets. In many cases there is an imputed interest rate that the security will accrete at, giving your clients in a taxable account a potential tax liability.

RRs can receive additional training on structured products, including Principal Protected Notes, by signing in on the approved website for firm approved training. Training can be memorialized by a course generated certificate.

Responsibility

Direct supervising principals ensure that any traditional and nontraditional CD transactions engaged in by individuals under their direct supervision 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.).

Procedure

- Active accounts where customers entered into mutual fund, Collateralized Mortgage Obligation (CMO) or variable annuity product transactions with maturing CDs, will be reviewed quarterly for proof of adequate disclosure. Such reviews will be evidenced by maintaining a list of all accounts reviewed, initials of the principal undertaking such reviews, dates of such reviews and any findings, indicating follow-up measures taken where required.

  These quarterly reviews will determine whether the disclosures have been made, in writing, with the customer acknowledging such disclosures in writing, indicating 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. We will maintain evidence of all reviews, including the results of each review, initials of who undertook the reviews, dates, and appropriate follow-up measures.
- 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 for CDs in a customer's account, we will undertake a review to 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
    4. A significant loss of principal could result if CDs are sold prior to maturity
- We will maintain documentation of all such reviews, evidenced in the same manner as listed above for other reviews undertaken in this area.
- 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. If it is determined that neither the fair market value nor the four disclosures were given, a decision will be made whether to create stricter policies and procedures that might include additional training for those who have not appropriately made the disclosures. In addition, where warranted, disciplinary actions may be taken. We will maintain evidence of such reviews in the same manner as indicated above for all other reviews.

Debt Securities

Bonds and Bond Funds

Background

In Notice to Members 04-30, FINRA notes that *"purchasers of bonds and bond funds often believe that their principal is safe, they are guaranteed a particular yield on their investment, and bonds are inexpensive to purchase because they do not pay a commission or other acquisition cost on the transaction."*

Responsibility

Our CCO must ensure that all registered personnel are fully aware of suitability issues related to debt security transactions.

In addition, our designated supervising principals are responsible for ongoing monitoring all securities-related activities engaged in by the individuals under their direct supervision to ensure compliance with all regulatory matters, including Regulation Best Interest.

Procedure

Our CCO must ensure that all registered personnel involved in debt securities transactions receive appropriate training relating to the risks as well as the rewards of the products recommended or offered. 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 particular bond or bond fund is appropriate for a particular customer before recommending it to that customer (i.e., performing a customer-specific suitability analysis)
- Provide a balanced disclosure of the risks, costs and rewards associated with a particular bond or bond fund, especially when selling to retain investors
- Adequately train and supervise employees who sell bonds and bond funds
- Implement adequate supervisory controls to reasonably ensure compliance with FINRA and SEC sales practice rules in connection with 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

Background

Structured Products are considered high-yield securities. LMK does not authorize the recommendation of any non-FDIC insured structured products.

Training is available at www.FTPortfolios.com for any RR who wishes to recommend firm-approved structured products.

Responsibility

LMK ensures that its registered personnel are aware of suitability issues related to high-yield investment opportunities.

In addition, individual designated supervising principals are responsible for ongoing monitoring of all securities-related activities engaged in by the individuals under their direct supervision.

Procedure

LMK and its 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.

The Compliance Department will monitor this area of our business and maintain appropriate records indicating the dates of all reviews, the names of individuals who undertook the review, scope of reviews and findings, any remedial action taken, if necessary.

Reverse Convertibles

Policy Requirements

L.M. Kohn & Company does not authorize the use of reverse convertibles.

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

L.M. Kohn & Company does not recommend penny stocks. The firm only accepts orders on an unsolicited basis, from customers, for penny stocks. Additionally, the firm's Risky Investment Form must be completed and signed off by customers in order for their associated penny stock transaction(s) to be accepted.

Procedures and Documentation

Rule 15g-5: Prior to effecting a transaction in a penny stock, the broker-dealer must disclose, and provide the customer with the firm's Risky Investment Form (to be signed/dated by the customer, registered representative, and supervisory principal) 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. We will not execute the penny stock transactions as Principal, they will be executed on an Agency basis only.

Rule 15g-6: Our Clearing Firm 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;
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 on the firm's Risky Investment Form and review of transactional details/customer paperwork, evidence that all the applicable disclosures and requirements have been met.

Exchange Traded Funds: Non-Traditional (Leveraged/Inverse/Single-Stock)

Policy Requirements

L.M. Kohn & Company prohibits the soliciting of orders to purchase leveraged, inverse, or single-stock exchange-traded funds (ETFs) for any of its brokerage customers.

Procedures and Documentation

The Compliance Department will undertake a monthly review of all leveraged, inverse, and single-stock ETF transactions/holdings to help ensure that no unauthorized trades are missed during the ProSurv review process.

Municipal Securities

Municipal Entities - Regulatory Notice 19-28

Regulatory Notice 19-28 states that a person who "provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues; or undertakes a solicitation of a municipal entity or obligated person" may be considered a Municipal Advisor. Registration, therefore, may be required if the person is advising or recommending an investment strategy on how to invest proceeds from the issuance of municipal securities or the brokering of escrow investment accounts.

L.M. Kohn & Company strictly prohibits its registered representatives from making any solicitations (i.e., providing advice or recommendations) on behalf of a municipal entity or obligated person in relation to the transacting of municipal securities business. Municipal entities or obligated persons, who choose to transact business with the firm, are solely responsible and required to pick and choose their own investments in accordance with their own investment strategies. Registered Representatives "may provide the municipal entity client with general market and financial information, information regarding currently available investments, or price quotes for investments available for purchase or sale in the market that meet criteria specified by the municipal client" as described in Regulatory Notice 19-28. Registered Representatives must obtain a communication: electronic, in writing or verbally memorialized that no municipal bond offerings are used as the source of funds for any investment account carried through LM Kohn & Company. This communication or attestation must be submitted to compliance@lmkohn.com no less than annually.

Any employee found to be in violation of this policy will be subject to disciplinary action up to and including termination of employment.

Municipal Entities - Regulatory Notice 19-28

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Regulatory Notice 19-28 states that a person who "provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues; or undertakes a solicitation of a municipal entity or obligated person" may be considered a Municipal Advisor. Registration, therefore, may be required if the person is advising or

recommending an investment strategy on how to invest proceeds from the issuance of municipal securities or the brokering of escrow investment accounts.

L.M. Kohn & Company strictly prohibits its registered representatives from making any solicitations (i.e., providing advice or recommendations) on behalf of a municipal entity or obligated person in relation to the transacting of municipal securities business. Municipal entities or obligated persons, who choose to transact business with the firm, are solely responsible and required to pick and choose their own investments in accordance with their own investment strategies. Registered Representatives "may provide the municipal entity client with general market and financial information, information regarding currently available investments, or price quotes for investments available for purchase or sale in the market that meet criteria specified by the municipal client" as described in Regulatory Notice 19-28. Registered Representatives must obtain a communication: electronic, in writing or verbally memorialized that no municipal bond offerings are used as the source of funds for any investment account carried through LM Kohn & Company. This communication or attestation must be submitted to compliance@lmkohn.com no less than annually.

Any employee found to be in violation of this policy will be subject to disciplinary action up to and including termination of employment.

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.

Our CCO will undertake a review annually 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 July 29, 2022, 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. This rule became effective on effective October 1, 2022, and is operative until December 31, 2023, a period of fifteen months.

The amendment raises the fee from $1,000 to $ 1,060.

The first payment at the amended rate is due by April 30, 2023.

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

The FINOP has responsibility to submit (and retain a copy of the invoice and payment) our applicable professional fee and registration payments, as required by MSRB Rules A-11 and A-12.

Best Execution (MSRB Rule G-18)

In March 2021, the SEC's Division of Examinations released its exam priorities for the year. The Division 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 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).

viii. *Customer Account Information.* Pursuant to Regulation Best Interest, for a retail customer to whom a recommendation of any securities transaction or investment strategy involving municipal securities is or will be provided, a record of all information collected from and provided to the retail customer, as well as the identity of each natural person who is an associated person, if any, responsible for the account.

Further, a record of the date that each Form CRS was provided to each retail investor, including any Form CRS provided before such retail investor opens an account.

Procedures

Our MSRB Principal(s), working with our CCO, 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.

Confirmation Disclosures (MSRB Rule G-15)

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

MRSB Rule G-15 requires that at or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer shall give or send to the customer a written confirmation that complies with the requirements outlined in G-15.

Procedures and Documentation

Our Municipal Securities Principal is responsible for ensuring that all confirms relating to municipal securities transactions are fully compliant with MSRB Rule G-15.

On an annual basis, or more often, our Compliance Department will review a relevant sampling of client files which have involved municipal securities transactions to determine that we are complying with the confirm disclosure requirements. Documentation of all such reviews, and any findings, will be maintained.

Our Municipal Securities Principal will ensure that individuals reviewing municipal securities confirms (which are generated either by us or by our clearing firm and which we will review for compliance on an annual basis) have available a full copy of MSRB Rule G-15, to ensure appropriate reviews are undertaken to ensure compliance.

Required disclosures include transaction information (including, but not necessarily limited to, the parties, their capacities, and any remuneration from other parties; trade date and time of execution; par value; settlement date; yield and dollar price; final monies; and delivery of securities).

Other information may be necessary to ensure that the parties agree on detail of the transaction must also be disclosed, including securities identification information; CUSIP number, if any, assigned to the securities; maturity date, if any; interest rate, if any; the dated date if it affects the price or interest calculation, securities descriptive information; information on status of securities; and tax information.

In addition to ensuring that all disclosure requirements are met, the format of the confirm will be reviewed to ensure that all the disclosures are clearly and specifically indicated on the front of the confirmation (with several specific exceptions contained in Rule G-15 which can be made on the reverse side of the confirmation).

Further, a confirmation shall include the mark-up or mark-down for the transaction, to be calculated in compliance with Rule G-30, Supplementary Material .06 and expressed as a total dollar amount and as a percentage of the prevailing market price if:

a. we are effecting a transaction in a principal capacity with a non-institutional customer, and
b. 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(s) with third parties 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:

   a. the non-institutional customer transaction was executed by a principal trading desk that is functionally separate from the principal trading desk that executed our purchase (in the case of a sale to a customer) or sale (in the case of a purchase from a customer) of the security, and we have 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;
   b. the customer transaction is a "list offering price transaction" as defined in paragraph (d)(vii) of Rule G-14 RTRS Procedures; or
   c. the customer transaction is for the purchase or sale of municipal fund securities.

Separate confirmations are required for each transaction. Multiple confirmations may be printed on one page, provided that each transaction is clearly segregated and the information provided for each transaction complies with the requirements of Rule G-15.

Timing for providing information. Information requested by a customer based on statements required on the confirmation shall be given or sent to the customer within five business days following the date of receipt of a request for such information; however, for information on a transaction executed more than 30 calendar days prior to the date of receipt of a request, the information shall be given or sent to the customer within 15 business days following the date of receipt of the request.

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, working with our CCO, 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

Background

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.

Responsibility

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.

Procedure

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 regarding 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 specific municipal security may be recommended to our customers. The Municipal Securities Principal will sign up for email alerts on each cusip through the electronic access website.

If necessary, we will access publicly available municipal market databases through BondDesk, Bloomberg, and EMMA to determine where to find relevant information on a particular municipal bond. For municipal securities transactions for which we access a publicly available database, we will distribute

information about which database to access when recommending that bond. Our Municipal Securities Principal will not approve the transaction without proof of a successful 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. We will maintain documentation of such reviews in the files, indicating the date of the review, who undertook the review, the scope of the review and any findings.

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 an annual 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

Background

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 its own account from a customer or sell municipal securities for its own account to a customer except at an aggregate price (including any mark-down or mark-up) that is fair and reasonable, taking into consideration all relevant factors, including the best judgment of the broker, dealer or municipal securities dealer as to 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. In no case shall a principal transaction for municipal bond transactions exceed a 3% mark-up. All municipal transactions will be conducted on a riskless basis.

Responsibility

Our Municipal Securities Principal must ensure that we are in full compliance with MSRB Rules G-15 and G-30 at all times.

Procedure

In addition to reviewing and approving our procedures relating to disclosures, 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 appropriately documented and that such rationale is appropriate. 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.

Our CCO will annually 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.

Our CCO will maintain documentation of all such reviews, including the dates, the names of individuals conducting the review, scope of the review, findings and corrective measures taken.

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.

An appropriate supervising principal must sign off on, and approve, any new account that intends to transact business in municipals. If the new account belongs to a retail customer, we must provide them with our Form CRS.

Our Municipal Securities Principal will conduct, through ProSurv, reviews 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.

All customer accounts will be reviewed to detect irregularities and possible abuses, particularly to ensure that the commission rates and service charges established are fair and reasonable (either agency or principal transactions).

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.

A separate Municipal Securities Advertising file will document all advertisements and sales literature, each of which must be approved by our Municipal Securities Principal prior to use, pursuant to MSRB Rule G-21 and Rule G-40, to ensure that such advertisements and sales literature are free of false or misleading information. Any advertisements of new issues must properly reflect the availability of the securities. Approval will be evidenced by initials and dates.

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.

At least quarterly, our Municipal Securities Principal will review our compliance for the following:

- If applicable, confirms disclose yield and call information;
- Comparison and verification procedures are followed on all municipal securities transactions;
- We comply with procedures for rejection and reclamation of municipal securities;
- MSRB close-out procedures are followed, where appropriate;
- Interdealer comparisons and book-entry settlement are effected in conformity with MSRB Rule G-12; and
- For institutional customers, the facilities of a depository for comparison, acknowledgement and settlement of transactions are utilized.

Ownership Information Obtained in Fiduciary or Agency Capacity (MSRB Rule G-24)

Policy Requirements

Broker-dealers acting in a fiduciary or agency capacity for an issuer of municipal securities or for another broker, dealer or municipal securities dealer, including, but not limited to, acting as a paying agent, transfer agent, registrar or indenture trustee for an issuer or as clearing agent, safekeeping agent or correspondent of another broker, dealer or municipal securities dealer, must comply with MSRB Rule G-24.

Procedures and Documentation

Our Municipal Securities Principal must ensure that we comply with MSRB Rule G-24 and oversee all individuals engaged in municipal securities transactions to detect any G-24 violations.

Our Municipal Securities Principal will document any confidential, nonpublic information concerning the ownership of municipal securities we obtain while we act as fiduciaries or in an agency capacity for an issuer of municipal securities or for another broker, dealer or municipal securities dealer.

Annually we will review the log of any confidential, nonpublic information - relative to our municipal transactions - to detect any instances where it appears that such information was utilized for the purpose of soliciting purchases, sales or exchanges of municipal securities; or where it may have been used for financial gain except with the consent of such issuer or such broker, dealer or municipal securities dealer or the person on whose behalf the information was given.

We will maintain documentation of all suspect activities, indicating all appropriate individual and issuer information, relevant dates and the results of investigatory actions and findings, as well as follow-up actions taken.

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 a quarterly 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 April 9, 2020, the MSRB filed a proposed rule change to reduce operational challenges related to the COVID-19 pandemic. Under this rule change, which became effective immediately, the MSRB proposed to extend the time to complete certain professional qualifications.

Supplementary Materials .06, .07, and .08 granted municipal securities principals, municipal securities limited principals, and municipal securities sales principals an extension of 120 days from the time the MSRB announced the expiration date of the temporary period to complete the applicable MSRB-owned principal qualification examination.

Supplementary Materials .09 extended the grace period for individuals to pass the Series 54 examination from November 12, 2020 was extended until March 31, 2021. Therefore, individuals qualified with the Municipal Advisor Representative Qualification Examination (Series 50) could continue to engage in principal-level activities without passing the Series 54 until March 31, 2021.

Supplementary Material .10 permitted individuals an extension of 120 days from the time the MSRB announced the expiration date of the temporary period to complete their Regulatory Element component of continuing education training.

Supplementary Material .11 established that, for calendar year 2020, the annual needs analysis and the delivery of continuing education is timely completed when both requirements are completed on or before March 31, 2021.

Supplementary Material .12 provided an extension for municipal advisors to complete their continuing education requirements. Municipal advisors fulfilled their calendar year 2020 continuing education requirements by completing the requirements on or before March 31, 2021.

A proposed rule change filed on August 30, 2022 aligned the MSRB's Rule G-3 with changes in FINRA Rules 1210 and 1240. Rule G-3's proposed rule change, which became operative on September 30, 2022, made substantive changes to dealer's obligations regarding the Regulatory Element, the Firm Element, and the maintenance of qualifications.

The MSRB made completing the Regulatory Element component of continuing education an annual requirement. As of September 30, 2022, associated persons of a dealer must complete the Regulatory Element component of continuing education annually by December 31 of each calendar year. To satisfy this rule's requirements, municipal securities representatives and municipal securities principals must also complete Regulatory Element content relevant to each qualification held. Previously, to comply with Rule G-3, each registered person needed to complete the Regulatory Element component of CE on the occurrence of their second registration anniversary date and every three years thereafter.

Under older versions of Rule G-3, failing to complete the Regulatory Element component of continuing education in the required time frames would result an individual's registrations becoming inactive until he satisfied the program requirements. Since the rule change, however, dealers may provide supporting documentation and make a written request to extend the time to complete the continuing education.

As of September 30, 2022, MSRB Rule G–3(i)(i)(A)(3) expressly exempts Financial Services Industry Affiliate-eligible persons (i.e., those individuals eligible for a waiver, pursuant to Supplementary Material .04 of MSRB Rule G–3) from the provision's requirements that a registered person must complete assigned continuing education as prescribed by the appropriate enforcement authority when he becomes subject to a stated disciplinary action.

MSRB Rule G–3(i)(i)(A)(4) previously required any registered person who terminated association with a dealer and then became reassociated in a registered capacity with a dealer, within two years, to participate in the Regulatory Element at the required intervals that applied based on the person's initial registration anniversary date, not the date of reassociation. As of September 30, 2022, no matter when the reassociation occurs, individuals re-registering with the appropriate examining authority must complete the Regulatory Element component of continuing education for the registration category annually by December 31 of each calendar year.

The proposed rule change amends the Firm Element component of continuing education. All registered persons, including individuals with permissive registration, must receive Firm Element training. With this rule change, the MSRB has extended the Firm Element component of continuing education requirement from "covered registered persons" to "all registered persons".

Rule G– 3(i)(i)(B)(2)(b) was altered to reduce the minimum topics that dealers must cover in their dealers' training programs. Dealers' training programs must now, at a minimum, cover training topics related to professional responsibility and the role, activities or responsibilities of the registered person. Dealers need not address specific subject matter contained in previous versions of this rule. Moreover, MSRB Rule G–3(i)(i)(B)(2) now permits dealers to count their AML compliance program training towards satisfying registered persons' Firm Element requirement. In addition, the annual compliance meeting, to the extent appropriate, may satisfy Firm Element requirements for persons associated with a member of a registered securities association.

The MSRB also facilitated maintaining qualifications through continuing education for previously registered persons. With the proposed rule change, individuals whose registrations are terminated may maintain their qualifications by participating in FINRA's continuing education program, subject to conditions specified in MSRB Rule G–3(i)(i)(C) having been met.

Finally, the MSRB facilitated the eligibility of persons enrolled in the financial services industry affiliate program to transition to proposed continuing education program. Previously, Supplementary Material .04 of MSRB Rule G–3 permitted individuals working for a financial services industry affiliate of a dealer to obtain a waiver from the examination requirements for requalification. As of September 30, 2022, FINRA has stopped accepting new individuals into its waiver program. Instead, those individuals may maintain their qualifications, subject to meeting certain specified requirements, by completing annual continuing education requirements. On November 16, 2022, the MSRB filed a proposed rule change to Rule G-3. As of January 1, 2023, Supplementary Materials .10 through .16, which pertained to COVID-19-related relief related to professional qualifications, are deleted because the relief expired. By the terms of Supplementary Material .10 through .16. The relief provided for in Supplementary Materials .10, .11, .12 and .14 expired on August 29, 2022, the relief provided for in Supplementary Material .13 expired on November 30, 2021, and the relief provided for in Supplementary Materials .15 and .16 expired on March 31, 2021.

Procedures and Documentation

The Compliance Department is responsible for ensuring that only qualified Associated Persons conduct any business that falls under MSRB rules and regulations.

Real-Time Transaction Reporting System (MSRB Rule G-14)

Background

The RTRS Users Manual located at http://www.msrb.org/ comprises 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

Responsibility

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.

Procedure

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 Users Manual.
- Ensure that, if at any time we employ an agent for the purpose of 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 manner in which 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) in order 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 of the above actions, including dates, names of individuals undertaking the action, remedial actions taken, etc.

Quarterly, our CCO will review all RTRS reporting activities to ensure that we adhere to all appropriate policies and procedures, and maintain documentation of such review, including the dates, scope of review, name of individual conducting the review, findings, etc.

Destination Codes

Our Municipal Securities Principal will ensure that all destination codes are accurately reported. This includes 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

Background

From FINRA Regulatory Notice 10-41, "*Brokers, dealers and municipal securities dealers (dealers) must fully understand the municipal securities they sell in order 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.

Those sources include, 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."

Responsibility

Our MSRB Principal must supervise all muni transactions to ensure that 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, is adhered to.

The MSRB has interpreted its Rule G-17 to require a dealer, in connection with any transaction in municipal securities, 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.

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 or not the transaction was recommended.

Credit Ratings

In order 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.

As of 12/1/2010, Registered Reps must disclose to the client, the following information for all municipal bond transactions in the Secondary Market:

Issuer name, CUSIP #, type of bond (GO, TAN/RAN, COP, REV, or Essential Services), any credit enhancements, interest rates & yield (coupon rate, YTC, YTS, YTM), interest payment frequency, price, ratings, underlying ratings, whether the bond is subject to Alternative Minimum Tax, whether the bond is or is not exempt from Federal and/or State tax, whether it is a 'Build America Bond', whether it is a negative, neutral or positive credit watch, the dates and prices of the call schedules, whether the bond has a Sinking Fund, and the sources from which this information has been obtained. Additionally, the Rep must discuss material events regarding the bond with the client from sources including www.emma.msrb.org and bond desk.

This disclosure will be documented on the LMK Municipal Bond Secondary Market Disclosure form which will be maintained at the home office.

Procedure

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.

MSRB Rule G-27 requires that our procedures provide for the regular and frequent review and approval by a designated principal of customer accounts introduced or carried by the dealer in which transactions in municipal securities are effected, with such review being designed 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 CCO will ensure that all appropriate personnel have access to FINRA Regulatory Notice 10-41 in order to fully understand all compliance-related issues and requirements regarding the secondary market sales of municipal securities.

Our CCO will ensure that individuals engaged in the secondary sale of municipal bonds utilize FINRA's "Customer Disclosure Checklist" or have a checklist of their own based on the required disclosure information. FINRA's checklist can be accessed at http://www.finra.org/industry/Tools/index.htm.

Section 529 College Plan Customer Protection Obligations

Background

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."*

Responsibility

Our Municipal Securities Principal must ensure that sufficient training and oversight are in place so that all individuals engaged in 529 college savings plan transactions are aware of relevant disclosure.

In addition, 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/.

Procedure

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.

We will maintain documentation of all such reviews, indicating date, name of individuals conducting the review, scope of the review and any findings.

Section 529 College Savings Plans

Background

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.

Suitability Issues for Multi-Class 529 Plans

As a registered representative, you have a duty to make suitable 529 plan recommendations, which entails a full understanding of issues involving multiple share classes. 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 being paid to broker-dealers and their registered personnel.

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 with respect to large dollar purchases.

The impact on an investor's long-term results that breakpoints, rights of accumulation, and letters of intent may have when they reduce the sales charges paid on purchases of share classes that impose front-end sales charge must be taken into account whenever higher-expense classes of mutual fund shares are being discussed with a client.

Specifically for 529 plans, it is important to discuss with your client the common suitability factors, including time horizon, that determine an appropriate share class recommendation. The client should be disclosed the benefits and limitations of each available share class, so that the client can make an educated decision on the share class that is most appropriate for their specific situation.

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 ensure that an appropriately trained individual is available to act on his or her behalf, as a designee, should the Municipal Securities Principal be unavailable for supervision for any reason.

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 Regulation Best Interest:

- 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

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 to an institutional client.

In addition, for retail clients, 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.

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.

Such reviews will be evidenced by the initialing of all reviewed documents and by maintaining notes in the files concerning any deficiencies found, and any follow-up measures taken.

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 so long as 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, we provide in writing (which may be electronic) to each customer for whom a purchase or sale of a municipal security was effected or who holds a municipal securities position:

- A statement that the firm is registered with the SEC and the MSRB; and
- A statement to the customer that an investor brochure is available on the website of the MSRB (at www.msrb.org) that describes the protection that may be provided by the MSRB rules and how to file a complaint with an appropriate regulatory authority.

For customers who fall outside the purview of this rule, a dealer must make this aforementioned information available on its website. A dealer that does not have customers is exempt from this rule's requirements. A dealer that agrees with a carrying dealer servicing its customer accounts that the carrying dealer will comply with the requirements of Rule G-10(a) is exempt from this rule.

Supplementary Material .01, Sequencing of Dealer Notifications, explains that we comply with this rule when we provide the notifications to the applicable customers at in the calendar year and any additional customers that calendar year who subsequently effect a purchase or sale of a municipal security or hold a municipal securities position receive the notifications within the following rolling 12-month period.

As of October 12, 2021, under MSRB Rule G-48(f), we need not annually notify SMMPs the required written (which includes electronic) items of information as long as the information required under sections (a)(i) and (ii) of Rule G-10 is available on our website.

MSRB Rule G-14

MSRB Rule G-14 states that *"a transaction in a municipal fund security"* shall not be 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.

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 on the facts that 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 so long as we continue to qualify for the exemption. Our Municipal Securities Principal is responsible for ensuring that we do not act in any manner to negate our 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. If, for some reason, the invoice is not returned with the check, a written statement must accompany the check setting forth our BD's name, address and SEC registration number. This statement is not required if the invoice is returned to the MSRB with the check.

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 A-15 Termination/Change of Name or Address

If we cease involvement in municipal securities activities (e.g., Section 529s), our Municipal Securities Principal must immediately notify the MSRB, giving our name, address, SEC registration and the effective date of the cessation of municipal securities business.

If we change our name or address, such information is to be submitted immediately to the MSRB. Our Municipal Securities Principal must review information on file with the MSRB at least annually, making any required amendments to such information.

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 certain 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.

Our Municipal Securities Principal must obtain a copy of the May 14, 2002, Interpretive Guidance Memo, Application of Fair Practice and Advertising Rules to Municipal Fund Securities, understand all the issues raised therein and ensure that we are in compliance with these and all other applicable MSRB Rules and later Interpretive Guidance Memos.

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 in excess of 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.

If two or more customers share the same address, we can satisfy the delivery obligations set forth in this section by complying with the requirements set forth in Rule 154 of the Securities Act of 1933 on delivery of prospectuses to investors at the same address.

In addition, we must comply with paragraph (c) of Rule 154 on revocation of consent if subject to the delivery requirements in this rule concerning a customer who participates in a periodic municipal fund security plan or a non-periodic municipal fund security program.

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.

Responsibility

Our designated Municipal Securities Principal must ensure that we adhere to all applicable MSRB rules regarding 529 transactions.

In addition, on an ongoing basis, 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.

In reference to share class selection, each 529 plan is reviewed by a Municipal Securities Principal at the time the account is opened to help ensure that the share class recommendation is suitable for that client's particular situation, and that the share class fee structures were disclosed to the customer prior to the sale.

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, provided that the recommendation is subject to Rule G-19 and not Regulation Best Interest.
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. . A proposed rule change on April 29, 2022, further extended this exception.

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. Moreover, the broker, dealer, or municipal securities dealer will not need to perform a quantitative suitability analysis unless the broker, dealer, or municipal securities dealer has actual control or de facto control of the SMMP's account.

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 and Regulation Best Interest.

- 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)

Responsibility

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.

In October 2021, the MSRB filed a proposed rule change, effective immediately, amending Supplementary Material .01. The MSRB allowed dealers to satisfy their office inspection obligations for calendar year 2022 by conducting office inspections remotely until June 30, 2022. The MSRB filed a proposed rule change on March 1, 2022 that again amended Supplementary Material .01 by extending the timeline within which dealers may conduct remote office inspections. Under this proposed rule change, dealers could conduct calendar year 2022 office inspections remotely through December 31, 2022.

On November 16, 2022, the MSRB again filed an immediately-effective proposed rule change to Supplementary Material .01, and permitted dealers to conduct calendar year 2023 office inspections remotely for the until June 30, 2023. Any office inspection for calendar year 2023 not completed by June 30, 2023 must be conducted on-site.

On April 27, 2023, the MSRB amended the Rule G-27 to permit broker-dealers an additional twelve months to conduct remote office inspections. Under this immediately-effective rule change, broker-dealers could conduct inspections of municipal offices of supervisory jurisdictions, branch offices, or non-branch offices remotely for the remainder of calendar year 2023, and for calendar year 2024 through June 30, 2024.

The Compliance Department will maintain centralized and detailed records for each inspection conducted.

Our Municipal Securities Principal, working with our CCO, must ensure that we are in full compliance with all MSRB Rule G-27, MSRB Supervision Rule, requirements.

Procedure

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, financial and operations 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. Our CCO and our designated Municipal Securities Principal must ensure that appropriate designations continue to be made as required.
- Maintain written records of each supervisory designation and of the principal's responsibilities. (such supervisory designations are maintained on internal documents, including the exact periods of time for which individuals were so designated.
- 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 is in compliance.
- Include in the WSPs sections addressing, but not necessarily limited to
    -
    - How specifically designated individuals will monitor for 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 at least annually our supervisory system and WSPs.

The Primary MSRB Principal is Carl R. Hollister at the home office

The Secondary MSRB Principals are Mike Bell and Robert Chess at the home office

The Tertiary MSRB Principal is Garry P. Kohn at an OSJ office

The primary will review all municipal related correspondence prior to dissemination. Mike Bell will keep the municipal / 529 correspondence file.

The primary has the responsibility of following up on any customer complaints on any municipal transaction (including 529 plans).

For 529 Plans reviews are conducted at time of sale for suitability, state income tax benefits, and specific product share class or investment. Primary signs off on all new 529 plans.

For municipal transactions the reviews are done at time of sale for bonds purchased "on the street" thru the firm inventory account where the primary is the only authorized buyer for the firm. For transactions executed on "Bonddesk" trades are reviewed no later than T+1.

Each account is reviewed at time of sale for suitability and the ability to pay, funds in available by the primary.

Audits for offices conducting municipal securities transactions are done in accordance with the firm audit policy (every OSJ audited annually, every branch doing over $100,000 in securities business annually is

audited annually, TPA offices audit every 2 years if their primary business does not change year to year, all other offices are audited at least every 3 years.

All books and records relating to municipal securities transactions will be maintained at the home office, for direct applications the books and records are carried thru DBCAMs, for individual municipal securities the books and records are kept on the RBC platform.

LMK does not allow any discretionary accounts.

Our Municipal Securities Principal will annually review all of the above in relation to all municipal securities transactions to ensure that we are in full supervisory compliance with all MSRB and attendant FINRA rules. We will maintain documentation of this review, including documentation of each of the requirements noted above, indicating dates of reviews, names of individuals conducting the reviews, scope of review and all findings with any corrective measures taken, if applicable, based on deficiency findings.

Supervision - General Overview

Responsibility

Our MSRB Principal, Carl R. Hollister, is responsible for ensuring that we are in full compliance with all applicable MSRB Rules (and all NASD rules applicable to municipal securities transactions).

In addition, on an ongoing basis, our designated supervising principals are responsible for ensuring that all individuals under their immediate supervision are aware of, and acting in compliance with, all rules and regulations governing municipal securities transactions.

Procedure

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. Documentation of all such updates must be maintained in the files, including dates, names and CRD #s of the individuals to whom the updated information was distributed.

Our Municipal Securities Principal must further ascertain that we are in compliance with 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. We will maintain documentation of all such reviews in the files, including dates, names of individuals conducting the review, scope of the review, findings and any corrective measures taken due to findings, if applicable.

Our Municipal Securities Principal must also immediately bring any MSRB rule changes or new rules to the attention of all individuals involved in municipal transactions. Our Municipal Securities Principal must also review our internal policies and procedures to determine whether changes are required. For

any changes, documentation is maintained in the files about to whom the revised policies and procedures were distributed and the corresponding dates.

Restriction of Municipal Sales Personnel

Any individual associated with this broker-dealer in a registered representative capacity who has not been previously qualified as either a general securities or municipal securities representative must wait for a period of 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-day time period has passed. We will maintain documentation of all such training in the files, indicating dates, method of delivery (i.e., Annual Compliance Meeting, CE, compliance manual, compliance alerts, online training, etc.) and names and CRD #s of all individuals who received such training.

Time of Trade Disclosure

Background

Rule G-47: 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.

New 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.

Responsibility

All principals designated as overseeing 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.

Procedure

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 Disclosure Obligations in Specific Scenarios. The following non-exhaustive examples describe information that may be material in specific scenarios and require time of trade disclosures to a customer.

a. **Variable rate demand obligations**. A description of the basis on which periodic interest rate resets are determined and the role of the remarketing agent.
(x) Applicable ( ) Not Applicable

b. **Auction rate securities**. Features of the auction process that likely would be considered significant by a
reasonable investor and the basis on which periodic interest rate resets are determined. Additional facts that may also be considered material are the duration of the interest rate reset period, information on how
the "all hold" and maximum rates are determined, any recent auction failures, and other features of the security found in the official documents of the issue.
(x) Applicable ( ) Not Applicable

c. **Credit risks and ratings**. The credit rating or lack thereof, credit rating changes, credit risk of the municipal security, and any underlying credit rating or lack thereof.
(x) Applicable ( ) Not Applicable

d. **Credit or liquidity enhanced securities**. The identity of any credit enhancer or liquidity provider, terms
of the credit facility or liquidity facility, and the credit rating of the credit provider or liquidity provider, including potential rating actions (e.g., downgrade).
(x) Applicable ( ) Not Applicable

e. **Insured securities**. The fact that a security has been insured or arrangements for insurance have been initiated, the credit rating of the insurance company, and information about potential rating actions with
respect to the bond insurance company.
(x) Applicable ( ) Not Applicable

f. **Original issue discount bonds**. The fact that a security bears an original issue discount since it may affect the tax treatment of a municipal security.
(x) Applicable ( ) Not Applicable

g. **Securities sold below the minimum denomination**. The fact that a sale of a quantity of municipal securities is below the minimum denomination authorized by the bond documents and the potential adverse effect on liquidity of a customer position below the minimum denomination. See also Rule G-15(f).
(x) Applicable ( ) Not Applicable

h. **Securities with non-standard features**. Any non-standard feature of a municipal security. Additionally,
if price/yield calculations are affected by anomalies due to a non-standard feature, this also may be material information about the transaction that must be disclosed to the customer.
( ) Applicable (x) Not Applicable

i. **Bonds that prepay principa**l. The fact that the security prepays principal and the amount of unpaid principal that will be delivered on the transaction.
(x) Applicable ( ) Not Applicable

j. **Callable securities**. The fact that a municipal security may be redeemed prior to maturity in-whole, inpart,
or in extraordinary circumstances, including sinking fund calls and bonds subject to detachable call features.
(x) Applicable ( ) Not Applicable

k. **Put option and tender option bonds**. Information concerning the put option or tender option features.
(x) Applicable ( ) Not Applicable

l. **Stripped coupon securities**. Facts concerning the underlying securities which materially affect the stripped coupon instruments. The unusual nature of these securities and their tax treatment warrants special efforts to provide written disclosures.
( ) Applicable (x) Not Applicable

m. **The investment of bond proceeds**. Information on the investment of bond proceeds., In the OS for new issues.
(x) Applicable ( ) Not Applicable

n. **Issuer's Intent to Prerefund**. An issuer's intent to prerefund an issue.
( ) Applicable (x) Not Applicable

o. **Failure to make continuing disclosure filings**. Discovery that an issuer has failed to make filings required under its continuing disclosure agreements.
(x) Applicable ( ) Not Applicable

.04 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.

Depending upon the amount of our municipal securities transactions, and their level of risk, a schedule review will occur reviewing the municipal disclosure form to ensure appropriate disclosures have been made. Documentation of the review, name of individual(s) conducting the review and date(s) of review will be maintained by our Compliance Manager. The review will be conducted within T+3 but more regularly on T+1.

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.

Firm Short Positions and Fails-to-Receive

Recent FINRA examinations have found that, as a result of trading errors and inadequate firm controls, some customers who purchased tax-exempt municipal securities have been paid substitute interest, which is not tax-exempt under the Internal Revenue Code. FINRA identified a number of instances where firms have effected sales of municipal securities to customers where either the firm's trading activity inadvertently resulted in the firm creating a firm short position, or the firm failed to receive the securities it purchased to fill a customer's municipal securities order, collectively referred to as municipal short positions.

Our MSRB Principal and CCO will ensure:

- Communications provided to the customer, including confirmations, account statements and tax forms, do not contain false or misleading information regarding the tax status of paid or accrued interest payments in connection with municipal securities;
- In the event of inaccurate or misleading communications, we will immediately correct the communications and inform our customers;
- Taking the following remedial actions to resolve a short position and avoid the risk of paying substitute interest to a customer:
    - cancelling the trade, consistent with instructions from a customer;
    - cancelling the trade and, consistent with instructions from a customer, purchasing a comparable bond;
    - purchasing the bond from the market or another customer on a shortened settlement basis; or
    - [if our firm is an introducing firm] requesting the assistance of our clearing firm to identify other correspondents' customers who are long the security and may be willing to sell it to us.

In the event that our firm, through a self-review process, becomes aware that the activity described in this section has taken place, we will evaluate the conduct to determine if a filing pursuant to FINRA Rule 4530 is required. In addition, our firm will consider consulting legal counsel and the appropriate taxing authorities, such as the IRS or appropriate regulatory bodies of the states in which affected customers reside, to resolve tax reporting or underpayment issues, if any.

Mutual Funds

Advertising

Procedures and Documentation

Our Advertising Principal must ensure the preapproval of all mutual fund marketing materials used by this firm; their submission to FINRA when required; and our compliance with all related rules and regulations.

The designated supervising principal must ensure that we adhere to Rule 2210(c)1.

FINRA Rule 2210 requires that *"advertisements and sales literature concerning registered investment companies (including mutual funds, variable contracts and unit investment trusts) be filed with FINRA's Advertising/Investment Companies Regulation Department within ten (10) days of first use or publication"* by us. At the time of such filing with FINRA, we must provide the actual or anticipated date of first use.

We will also maintain files for advertisements we use that were initially drafted by the underwriter, including either a written verification from the underwriter that the specific piece has been filed with FINRA or proof that it was filed. Without such documentation we may not use the materials.

Where we receive written verification instead of proof, and the reviewing principal has questions concerning the material, we will not use such material until we have received hardcopy proof of FINRA filing.

Furthermore, we will review all selling agreements into which we enter to ensure they state that all advertisements offered by the underwriter have been filed with FINRA, accompanied by either the underwriter's certification of filing or actual filing proof.

The designated principal will ensure that any rankings or comparisons are current to the most recent quarter.

SEC Securities Act Rule 482

Rule 482's requirements include enhanced disclosures of investment objectives, investment risks, performance measurements, and fund charges and expenses.

SEC Securities Act Rule 142

Rule 142 does not apply to a notice, circular, advertisement, letter or other communication relating to an investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of the Investment Company Act.

Mutual Fund Performance Sales Materials

Our CCO will ensure that all performance sales materials comply with the following FINRA and SEC rules.

Certain disclosures and standardized performance presentation are required (as mandated by Securities Act Rule 482 and Investment Company Act Rule 34b-1) for all communications with the public other than institutional sales materials and public appearances, including:

1. Legends indicating that:
    - Quoted performance information reflects past performance and does not guarantee future results
    - Investment return and principal value will fluctuate so when shares are redeemed, they may be worth more or less than their original cost
    - Current performance may be lower or higher than the quoted performance data, and
    - More complete information about the mutual fund may be obtained by calling a toll-free number or accessing a publicly available web site where an investor may obtain performance data current to the most recent month-end (unless the sales material includes quotations of average annual total return for 1-, 4- and 10-year periods current to the most recent month ended seven business days prior to the date of use).
2. Maximum amount of front-end and back-end sales charges; and
3. Whether performance information reflects the deduction of such sales charges and, if not, a statement indicating that fact and that inclusion of sales charges would reduce the quoted performance.

In addition, performance sales material must include the total annual fund operating expense ratio, gross of fee waivers or expense reimbursements.

Mutual Fund Performance Sales Materials Disclosure Presentation (text box) Requirements

A prominent text box disclosure as outlined above must appear in print advertisements (e.g., print newspaper, magazine, other periodical) but is not required in printed sales literature such as fund fact sheets, brochures or form letters, as well as web sites, television, radio or other electronic communications.

Covered Investment Fund Research Reports

Securities Act Rule 139 provides that a broker's or dealer's publication or distribution of a research report about an issuer or any of its securities shall be deemed, for purposes of sections 2(a)(10) and 5(c) of the Securities Act, not to constitute an offer for sale or offer to sell a security that is the subject of a registered offering, provided that the issuer and its securities meet specified conditions in the rule. Securities Act Rule 139b expands the Securities Act Rule 139 safe harbor to include covered investment fund research reports.

FINRA amended Rule 2210 allows for a filing exclusion for covered investment fund research reports: If a firm publishes or distributes a research report concerning an unaffiliated registered investment fund (and the fund, the fund's adviser, and their affiliates were not involved with the preparation or approval of the report), the firm will not be required to file it with FINRA, provided that the report qualifies for the Rule 139b safe harbor.

Further, FINRA amended Rule 2241 adds 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 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. FINRA also eliminated quiet periods for public appearances concerning a covered investment fund.

The amendments to FINRA Rules 2210 and 2241 became effective on August 16, 2019.

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 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

The Compliance Department must periodically review the adequacy of our policies and procedures regarding breakpoints, letters of intent and rights of accumulation to help assess whether the firm is charging or has charged the correct sales loads.

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

Background

Per FINRA Rule 2342, we will not sell investment company shares in dollar amounts just below the point at which the sales charge is reduced on quantity transactions so as to share in the higher sales charges applicable on sales below the breakpoint.

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 and we must ensure that all registered representatives and their supervising principals receive sufficient training to be aware of the fact that they must know the terms set by each 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.

In addition to single-transaction breakpoints, investors may become entitled to 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 of time, 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 availing themselves of the benefits found under a letter of intent or rights of accumulation.

Splitting

Clients may miss mutual fund breakpoints and, therefore, not receive discounts that they would have received, if their entire investment were placed in only one mutual fund family when a representative recommends they purchase more than one mutual fund and the client's investment is split among the funds.

Linking

The most frequent causes for not providing breakpoint discounts result from the failure to link the following.

- 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 whether or not 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.

In closing, Special Notice to Members 02-85 states, "*Determining the correct sales charge is an obligation held by members and requires a high degree of vigilance to ensure that customers receive the full benefit of available price discounts to which they are entitled. Such vigilance includes extensive product and customer knowledge on the part of registered personnel and requires appropriate training, policies and supervisory procedures.*"

Responsibility

Our CCO must ensure that all registered personnel receive full training to understand the importance of appropriately dealing with all breakpoint disclosure and documentation matters and must undertake annual reviews of mutual fund transactions (see Mutual Funds, Annual Review section in these WSPs).

In addition, on an ongoing basis, all designated supervising principals must 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.

Procedure

Training in breakpoint and breakpoint-related issues is an inherent part of our supervisory activities relating to mutual fund breakpoint and matters relating to breakpoints. This training will be an annual requirement from firm level CE. The training will be on-line thru NRS Inc, our compliance vendor, who will also provide RR training reports on demand.

An annual review overseen 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

We will retain documentation of items reviewed annually and the rationale utilized to determine whether further training is or is not required, including who made such determination, in the files. This may include the "Mutual Fund Share Class Letter", new account paperwork and other documentation supporting the needs of the firm.

To verify that all registered personnel under their direct supervision obtain sufficient information and making all appropriate disclosures, supervising principals must review each mutual fund transaction and evidence such review by initials and dates. For direct application business this is done directly on the L.M. Kohn & Company Acknowledgement Form. For transactions executed thru the RBC platform supervisors will record their review on the Protegent Pro Surv system as well as to insure delivery to the client of the "Mutual Fund Share Class Letter" if required.

Any registered representative who does not appropriately advise clients, or who knowingly recommends an investment amount just under the breakpoint to receive a higher commission, will be subject to appropriate disciplinary action for failing to act in accordance with just and equitable trade principles and may face termination. We will retain documentation of any such instances in the files, indicating the specific situation warranting the action, the name and CRD # of the registered personnel involved and internal actions taken.

If the client insists on making the purchase below a breakpoint level, a supervising principal must give approval for the order.

In instances where a client wishes to split a sum of money between two or more families of funds, registered representatives must obtain a signed "Mutual Fund Share Class Letter" that the client must affirm missed breakpoint before proceeding with the split transaction. We will also require that the client or clients (joint accounts etc.) must affirm in writing that they know they are forgoing the benefits of breakpoints in a single mutual fund family when they are purchasing "C" share mutual funds in dollar amounts in excess of $49,999 at any one time (reviewed for a 90 day period for breakpoint eligibility from time of first large initial purchase) forgoing the benefits of breakpoint eligibility in favor of the flexibility to move out of these funds within a relatively short period of time (defined as less than 5 years) to move into other funds or fund families for any number of reasons that may include but not be limited to diversification, asset allocation or performance.

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

- All registered and nonregistered personnel engaged in processing these transactions understand the terms of offerings and reinstatements
- The availability of the information that must be recorded on our books and records , or on the books and records of our clearing firm, to determine the availability and appropriate level of breakpoints
- Customers are apprised of breakpoint opportunities and asked about positions or transactions away from this firm that should be considered in connection with a pending transaction
- The personnel processing these transactions have received appropriate training
- 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, with respect to 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)

Should reviews as indicated above, or review of the exception report for all front-end loaded A share transactions over $20,000, determine that 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.

We will maintain documentation of all such client contact, indicating who contacted the client, the date, notes regarding the discussion and resulting actions undertaken.

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.

The designated supervisory principal will review quarterly a random sample of customer confirms to determine whether the required language about disclosure of deferred sales charges was given.

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.

Full Disclosure (Point of Sale)

Background

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.

The impact on an investor's long-term results that breakpoints, rights of accumulation and letters of intent may have when they reduce the sales charges paid on purchases of share classes that impose front-end sales charges must be taken into account whenever higher-expense classes of mutual fund shares are being discussed with a client.

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, investors may take advantage of other methods to 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 tend to make B shares more attractive to investors and therefore easier to sell. However, B shares may impose a contingent deferred sales charge (CDS") 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 of time, usually after the CDSC declines to zero.

Class C Shares - A third class, often designated as Class C shares, may impose neither a front-end nor 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 also may 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

All personnel engaged in mutual fund transactions are also trained and supervised to make sure they understand the different share class structures as well as expense structures of each share class. Advisors are encouraged TO NOT 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 and who have long term investment holding periods, rights of accumulation or letters of intent. The client may choose another share class other than "A" shares if they sign the "***Multi–Class Mutual Fund Form***" which is available on line at www.lmkohn.com under FC Access. Additionally if the client wishes to invest in C shares on a routine basis the client(s) may sign the "One Time C Share Letter" accompanied with the Mutual Fund Expense, Fee, and Risk Disclosure" document. This

one time C share letter will cover all future C share purchases for any future transactions in accounts identified on the standing letter.

Regulatory Concerns

Notices to Members 94-16 and 95-80 provide further guidance with respect to mutual fund sales practices. These notices remind members that, in determining the suitability of a fund for an investor, a member should consider the fund's expense ratio and sales charges as well as its investment objectives.

Additionally, the Interpretive Material under NASD Rule 2830, IM 2830-1, generally prohibits members from selling mutual fund shares in dollar amounts just below the sales charge breakpoint to increase a member's compensation. These principles apply equally to recommending a particular fund share class to an investor.

Responsibility

Our Home Office Supervisors must ensure that all registered personnel are aware of the importance of appropriately dealing with multi-class mutual funds and that all such transactions have been appropriately handled.

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.

Procedure

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. We will provide for training and retain documentation of such training in files indicating dates, copies of training materials utilized, the training delivery method and lists of individuals who received such training.

Day-to-day supervision will ensure that we receive sufficient information about an investor’s investment goals and objectives, including the investor's time horizon and the investor’s typical investment holding period (these sections are on the new account forms and must be filled in by the client). 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 at the home office will ensure that every new customer is provided a copy of the “Mutual Fund Share Class Fee, Expense and Risk Disclosure” when the new account from is sent to the new client for review as well as sending it out annually to every customer when sending out the annual privacy notices. We will retain in the firm files and or client files proof of such disclosures, with client signature, when such disclosure is made in writing.

Late Trading/Market Timing

Policy Requirements

After-Close Mutual Fund Purchase or Redemption (Late Trading)

Investment Company Act Rule 22c-1(a) requires that redeemable securities of investment companies be sold and redeemed at a price based on the Net Asset Value (NAV) of the fund computed after the receipt of orders to purchase.

As found in Notice to Members 03-50, *"It is a violation of FINRA Rule 2010 (formerly NASD Rule 2110) and may be a violation of the federal securities laws and FINRA Rule 2020 (formerly NASD Rule 2120) for any affiliated individual of a broker-dealer to knowingly or recklessly effect mutual fund transactions that are priced based on NAV that is computed PRIOR to the time the order to purchase or redeem was given by the customer. Furthermore, it may be a violation of FINRA Rule 2010 (formerly NASD Rule 2110) and the federal securities laws to knowingly or recklessly facilitate certain mutual fund transactions, such as market timing transactions, in conjunction with, or with the acquiescence of, a mutual fund sponsor, fund administrator, investment adviser, underwriter, or any other affiliated person where those other parties acted contrary to a representation made in the prospectus or statement of additional information pursuant to which the mutual fund shares are offered."*

In plain English, all affiliated individuals of this firm are expressly prohibited from circumventing any stated mutual fund prospectus/statement of additional information (SAI) prohibition.

Procedures and Documentation

Our Mutual Funds Principal must ensure the execution of all mutual fund orders in such a manner as to ensure they receive the appropriate day's NAV.

The designated principal will work with Operations and Trading to ensure that we have a plan in place to ensure that mutual fund orders are executed in such a manner that ensure they receive the appropriate day's NAV.

To detect and prevent occurrences of late trading, the designated principal or another specifically named and designated individual will make monthly comparisons of the time of order receipt against the time of execution for a material sample (no less than 30 percent) of mutual fund transactions executed through our clearing firm or via wire orders with the mutual fund. In conducting this review, we must pay attention to the entry of trades time stamped before or at the close but entered or executed after the close. Such transactions should receive the closing NAV on that trade date, not the next day's (T+1) closing NAV.

The designated principal must ensure that the firm has taken steps to ensure that our systems that correct errors after the close cannot be subverted for the purposes of effecting late trading.

Many late trading abuses uncovered by the regulators have involved the following types of accounts/activity, which should be examined when conducting a late-trading review:

1. Institutional clients (hedge funds, in particular)
2. Mutual fund transactions exceeding $10,000

3. Spikes in transaction volume caused by in-and-out trading patterns. When mutual funds discover in-and-out trading patterns, they often announce that such practices are prohibited and indicate that the fund will no longer accept the representative's number, account number or other indicator.

Unfortunately, such notification is often made by e-mail directly to the offending registered person. Annual compliance and CE training will advise all personnel of the seriousness of keeping such notification from his or her supervising principal and/or from simply changing account or representative's numbers to continue such patterns.

Our designated principal must ensure the following results from an annual review:

- A record of all late-trading reviews, available for examination by the regulators, indicating what was reviewed, how it was reviewed, and the results of all such reviews;
- Maintenance of records documenting all remedial actions taken because of the reviews; and
- That appropriate and sufficient procedures are in place, including supervisory procedures, for processing all trade corrections.

Multi-Class Mutual Funds

Background

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 with respect to large dollar purchases.

The impact on an investor's long-term results that breakpoints, rights of accumulation and letters of intent may have when they reduce the sales charges paid on purchases of share classes that impose front-end sales charges must be taken into account whenever higher-expense classes of mutual fund shares are being discussed with a client.

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, investors may take advantage of other methods to 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 tend to make B shares more attractive to investors and therefore easier to sell.

However, B shares may impose a contingent deferred sales charge (CDS") 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 of time, usually after the CDSC declines to zero.

Class C Shares - A third class, often designated as Class C shares, may impose neither a front-end nor 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 also may choose class designations and expense structures other than those described above. For advisory accounts, mutual fund purchases must be made in the lowest expense share class available in that particular fund. In rare instances, the lowest expense share class of a particular fund will pay a trailing commission, often referred to as a 12b-1 fee. We have arranged through our clearing firm that all 12b-1 fees are rebated to the advisory client.

Various Classes and Their Impact on Breakpoints, Rights of Accumulation or Letters of Intent

All personnel engaged in mutual fund transactions are also trained and supervised to make sure they understand the different share class structures as well as expense structures of each share class. Advisors are encouraged TO NOT 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 and who have long term investment holding periods, rights of accumulation or letters of intent. The client may choose another share class other than "A" shares if they sign the "***Mutual Fund Share Class Letter***" which is available on line at www.lmkohn.com under FC Access.

Regulatory Concerns

Notices to Members 94-16 and 95-80 provide further guidance with respect to mutual fund sales practices. These notices remind members that, in determining the suitability of a fund for an investor, a member should consider the fund's expense ratio and sales charges as well as its investment objectives.

Additionally, FINRA Rule 2341 (formerly the Interpretive Material under NASD Rule 2830, IM 2830-1), generally prohibits members from selling mutual fund shares in dollar amounts just below the sales charge breakpoint to increase a member's compensation. These principles apply equally to recommending a particular fund share class to an investor.

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.

Responsibility

Our Mutual Fund Principal must ensure that all registered personnel are aware of the importance of appropriately dealing with multi-class mutual funds and that all such transactions have been appropriately handled.

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.

Procedure

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. We will retain documentation of such training in the files indicating dates, copies of training materials utilized, the training delivery method and lists of individuals and CRD #s of all who received such training. Our training will utilize the SEC's administrative decision finding that two broker-dealer sales representatives sold Class B shares in violation of federal securities laws for failing to make certain disclosures to customers regarding Class B shares (*In the Matter of Michael Flanagan, et al.*, SEC Initial Decision Release No. 160. Jan. 31, 2000).

Day-to-day supervision will ensure that we receive sufficient information about an investor's investment goals and objectives, including the investor's time horizon and the investor's typical investment holding period (these sections are on the new account forms and must be filled in by the client). 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 at the home office will ensure that every new customer is provided a copy of the "Mutual Fund Share Class Fee, Expense and Risk Disclosure" when the new account form is sent to the new client for review as well as sending it out annually to every customer when sending out the annual privacy notices. We will retain in the firm files and or client files proof of such disclosures, with client signature, when such disclosure is made in writing.

For advisory accounts, we have arranged through our clearing firm that all 12b-1's are automatically rebated back to the client. Through our agreement with TD Ameritrade we are not receiving 12b-1's. Our reps are to use the lowest expense share class for all mutual fund purchases. If the account is an advisory wrap account, there should be no commissions generated by the rep for trading and execution. Supervising principals review mutual fund trading on a daily basis to ensure that no commissions were generated in a wrap account as a result of mutual fund trading. The rep will be responsible for all trade correction costs associated with their trading errors.

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.

Principal-Protected Funds

Policy Requirements

Guaranteed Principal

Most principal-protected funds guarantee the initial investment minus any front-end sales charge even if the stock markets fall. In many cases, the guarantee is backed by an insurance policy.

Lock-Up Period

Should the investor sell any shares in the fund prior to the end of the guarantee period (i.e., a period of anywhere from 5 to 10 years), the investor loses the guarantee on those shares and could lose money if the share price has fallen since the initial investment.

A Mixture of Bonds and Stocks

Most principal-protected funds invest a portion of the fund in zero-coupon bonds and other debt securities and a portion in stocks and other equity investments during the guarantee period. To provide a guarantee, many funds may be almost entirely invested in zero-coupon bonds or other debt securities when interest rates are low and equity markets are volatile. While allocation provides less exposure to the markets, it may greatly reduce any potential gains from subsequent gains in the market, and may increase the risk of rising interest rates, which generally cause bond prices to fall.

Higher Fees

Total annual fees deducted from the investor's holdings (expense ratio) are typically higher than for non-protected funds, ranging from 1.5 percent to as high as 2.0 percent, of which .33 percent to .75 percent pays for the principal guarantee. Many also impose sales charges, plus redemption/penalty fees for early withdrawals, which could be significant.

Procedures and Documentation

Our designated supervisory principals, CCO and Mutual Fund Principal are responsible for ongoing monitoring of all mutual fund transactions engaged in by the individuals under their direct supervision and for ensuring that we adhere to all appropriate compliance and disclosure requirements.

Before permitting any such transactions, all appropriate registered personnel will receive sufficient training utilizing, among other materials, the FINRA Investor Alert titled Principal-Protected Funds – Security Has a Price, dated March 27, 2003.

We will also review all principal-protected fund transactions, evidenced by initials and dates, to ensure that appropriate disclosures were made to the investor and to ensure suitability. Issues that we review will include the following.

- Is there a chance the investor will need the invested funds in the next 5 to 10 years? This could lead to loss of the principal guarantee, the imposition of a fee for an early withdrawal penalty and a loss of money due to a fallen share price.
- Does the investor require income from the investment? The guarantee is based on no redemptions during the guarantee period and reinvesting all dividends and distributions. While reinvested dividends and distributions will not add to the amount that is guaranteed, an investor's election to make redemptions or receive dividends or distributions in cash can reduce the guaranteed amount.
- For funds not held in a tax-deferred retirement account, was the investor made aware that annual income tax must be paid on the imputed interest from the fund's zero-coupon bond holdings as it accrues?
- Is the investor aware that in certain market conditions, the fund may be invested entirely in zero-coupon bonds and other debt securities, which could lead to a forfeiture of all potential gains should stock prices rise?
- Is the investor aware that there may be no gains beyond the initial investment, in which case the performance would trail that of Treasury bonds, which could have been purchased with no annual fees?
- Does the investor understand that they will only receive the benefit of the guarantee on the maturity date? Selling shares before or after maturity date can lead to a loss of capital if the share price has fallen.
- Has the investor been advised that the guarantee is only as good as the company that offers it? Registered representatives should advise clients how they can rate a company's financial strength.

We will retain copies of documents in the files, indicating that the above issues have been disclosed to, or discussed with investors. Where there is no hardcopy evidence of such disclosures, the designated principal will determine whether the transaction can be approved or whether client contact is required prior to proceeding.

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.

Prospectus Delivery

Responsibility

Our designated supervising principals must ensure that the individuals under their direct supervision comply with the requirements regarding prospectus delivery.

At least annually, our CCO will review our policies and procedures to ensure that our prospectus delivery requirements are met.

Procedure

Point of Sale - A prospectus must be delivered to each customer buying shares of a mutual fund. The prospectus delivery (required to be accomplished before the transaction settles) is handled either directly by the registered individual dealing with the customer or by our clearing firm.

Our CCO is responsible for ensuring, minimally on an annual basis, that prospectus delivery is in fact being made to all customers in a timely manner. Documentation as to all such reviews undertaken will be maintained indicating the date of the review on the LMK Customer Acknowledgment Form, the name of the individual who conducted the review, the scope of the review, and any findings and remedial actions taken.

Under SEC Rule 154 (Securities Exchange Act of 1933), prospectus delivery requirements are satisfied, with respect to two or more investors sharing the same address, by sending a single prospectus, subject to certain conditions, including investor consent to the delivery of one prospectus.

Our CCO is responsible for ensuring that Rule 154 requirements are adhered to when utilizing the “householding” method of prospectus deliveries.

In instances where the fund prospectuses are sent to investors by the fund directly, it is our CCO's responsibility (on a surveillance basis) to ensure that this is, indeed, happening. While the fund may be sending out the prospectus, prospectus delivery is our responsibility, and we must undertake sufficient due diligence to ensure that our responsibility is being met, regardless of who is actually undertaking the action.

For all mutual fund recommendations, individuals are required to document such transactions, on a weekly basis, and submit this to his or her direct supervising principal, together with a copy of the client prospectus acknowledgement letter, for purposes of review. Such review will be evidenced by initials and dates on each individual's weekly report, which will be maintained in the files.

Where there is an issue prohibiting the principal from approving the report, follow up investigations will be undertaken with notations as to any findings maintained with the appropriate report. Notations concerning any corrective measures taken, when applicable, will also be made on the report.

In addition, spot checks will be undertaken (not less than quarterly) to review client files against the registered individual's weekly reports. The results of these spot checks will be documented, including results of any noted deficiencies and follow up activities to take corrective action where required, will be maintained in the files.

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.

Procedures and Documentation

Supervising principals are specifically trained to ensure that when a client sells any of a mutual fund holding, he or she is advised of the fund's reinstatement policy.

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.

- Prospectuses and approved materials should be shared with the public.
- 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
    - Prospectus delivery requirements
    - 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

Background

A mutual fund switch is the sale and subsequent purchase of a mutual fund within a specified time period. Generally speaking, mutual funds are designed 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.

Responsibility

Our Mutual Fund Principal, working in conjunction with our CCO, must ensure that all registered personnel understand switching prohibitions and the documentation required when switching is appropriate.

In addition, our designated supervising principals are responsible for ongoing monitoring of any mutual fund transactions undertaken by individuals under their direct supervision to ensure that those individuals obtain all appropriate information, make all appropriate disclosures and prepare and retain all appropriate documentation.

Procedure

All appropriate registered personnel will receive training on mutual fund switches and, attendant prohibitions and requirements. Documentation as to all such training will be retained in the files, including dates, copies of training material utilized, method of delivery (annual compliance meeting, CE, on-line training, etc.), and a list (names and CRD numbers) of all who received such training.

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, a "switch letter" must be obtained from the customer and kept on file. The switch letter will be reviewed by the supervising principal, with such review evidenced by initials and dates.

Mutual Fund Switch Letters

Use of switch letters is required under all of the following circumstances and conditions:

1. New assets transferred in from outside securities firms, to include change of dealer situations, where mutual funds in any share class are sold and the proceeds

are used to purchase mutual funds of any share class or any other packaged product.

2. In any case where a switch is coming out of an "A" or "B" share classes into a "C" shares.

3. In any case where a switch is coming out of "A" or "C" share classes into a "B" shares.

4. In any case where a switch is coming out of "B" or "C" share classes into "A" shares.

5. In any case where a switch incurs a sales charge to the client; front end or back end.

Exceptions:

1. "C" to "C" share class switches where there is not a sales charge incurred by the client.

2. "A" to "A" share class switches done at NAV

3. Same mutual fund family exchanges into same share class.

4. Mutual fund switches done in an advisor platform where there are no front end or back end sales charges incurred or potentially incurred by a client.

5. When assets are transferred in from an outside B/D or Investment Company and the assets are no load funds, then the sale of those no load assets, with the proceeds being used for purchase in another mutual fund family / share class will be exempt from the switch letter rule.

Supervising principals must also determine whether sufficient information has been obtained identifying the original source of funds used for the purchase of a mutual fund in switching situations. If such information has been obtained and is found to be an acceptable switching from one source of funds to the mutual fund investment, the review will be evidenced by initials and dates. Where the information has either not been obtained or does not seem appropriate, the principal will not approve the transaction and will instead undertake a more in-depth review. Regardless of whether or not the transaction is ultimately approved, notes will be made to the file as to the details of such further review.

The supervising principal must also make a determination as to whether or not, at the time of the transaction, the client was made aware of any additional charge to the client as a result of the switch, or the imposition of a new required holding period.

All completed switch letters will be kept on file, both in the client file and in a "switch letter" file.

Unit Investment Trusts

Background

Unit Investment Trusts (UITs) that charge initial sales charges sometimes offer discounts in the sales charge 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 substantially similar to 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 in connection with the sale of UITs.."*

When recommending the purchase of UIT's in advisory accounts, reps must always use fee based UIT's and their designated CUSIP. Reps are prohibited from charging any commission on UIT's if the account is a wrap account.

Responsibility

Our CCO will ensure that we have adequate policies and procedures in place concerning transactions involving Unit Investment Trusts (UITs) and that appropriate surveillance is undertaken to detect any areas of non-compliance.

Our designated supervising principals are responsible for ongoing oversight of all securities activities undertaken by individuals under their immediate supervisions.

Procedure

While Notice to Members 02-85, and the recommendations of the Joint Task Force and the training materials and forms developed by FINRA in response to those recommendations 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.

Our CCO must ensure that all registered personnel engaged in UIT transactions receive sufficient training regarding the fact that customers must be informed about existing price breaks, and that the price breaks are made available to customers in connection with UIT purchases. All supervisory principals will also receive training to ensure they are aware of their duties and responsibilities in overseeing the sale of UITs. We will maintain documentation of such training in the files, including dates, copies of training materials utilized, method of delivery (i.e., Annual Compliance Meeting, CE, on-line training, etc.), and the names and CRD #s of individuals who received the training.

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.

In instances 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 to take (i.e., client contact, additional training, withholding of commissions, etc.). We will retain all records indicating such situations, dates of reviews, name of individual or individuals undertaking the review, client name and account number requiring further investigation/actions, corrective measures taken, etc. in the files.

For advisory accounts, designated supervising principals review UIT trades on a daily basis through ProSurv to ensure that wrap accounts were not charged a commission on a UIT trade. Additionally, daily reviews are conducted to ensure that the UIT being purchased is the fee based version of that particular product when purchased in an advisory account. The rep will be responsible for all trade correction costs associated with their trading errors.

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, the Compliance Department will conduct periodic reviews of 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, the Compliance Department 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

L.M. Kohn & Company, as a matter of policy and practice, does not invest in digital assets on behalf of clients. L.M. Kohn & Company reviews all firm accounts on a periodic basis to ensure that there are no regulatory assets invested in digital assets.

Online Trading

Procedures and Documentation

Our firm does not offer online trading for customers.

Our CCO has overall responsibility for ensuring security of customer information.

Best Execution Review Procedures and Documentation

The designated principal will receive an annual 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 random 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.

Information Security/Data Integrity Review Procedures and Documentation

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.

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.

Allocation Procedures

Background

The requirements of this subparagraph shall not apply to allocation procedures submitted to, and approved by, another self-regulatory organization having comparable standards pertaining to methods or allocation.

Responsibility

The Compliance Department's designated Registered Options and Security Futures Principal(s) (ROSFP) is responsible for ensuring that we are in compliance with FINRA Rule 2360 (23)(C), "Allocation of Exercise Assignment Notices"

Procedure

The designated ROSFP(s) will ensure that we have established fixed procedures for the allocation to customers of exercise notices assigned in respect of short positions in option contracts in such members' customer accounts.

The allocation must be on a first-in-first-out or automated, random selection basis that has received FINRA approval, or on a manual random selection basis specified by FINRA.

The ROSFP(s) must ensure that our customers have received information in writing regarding our method of allocating exercise notices to our customers' accounts, explaining the manner of operation and the consequences of that system.

In addition, the designated ROSFP(s) must also ensure that we have reported our proposed method of allocation to FINRA and have obtained FINRA's prior approval for such method.

Approval of Uncovered Option Accounts

Responsibility

The Compliance Department's designated ROSFP(s) is responsible for ensuring thorough reviews of all new options account applications and attendant documents to ensure compliance with the rules and with the items stated in the FINRA's "Interpretation of the Board of Governors."

Procedure

In addition to determining sufficient net worth, supervising principals must pay specific attention to the customer's age, number of dependents, investment objectives, prior investment experience in securities, including options, and anticipated amount of funds to be approved in options.

The appropriate designated ROSFP(s) will approve all accounts prior to the entry of any uncovered option order.

The appropriate ROSFP(s), or an appropriately designated individual will review all orders marked "sell to open" PRIOR to entry.

The ROSFP(s) will also

- Maintain written records of the reason for the exception approval for any new account approved for uncovered options that does not meet the set standards
- Ensure that each account opened for uncovered options has on file an executed Special Disclosure Statement for Uncovered Option Writers, with all supplements, as required by FINRA Rule 2360 (formerly NASD Rule 2860(16)(E)), and
- Ensure the distribution of a copy of each new, or revised, Special Disclosure Statement to each customer having an account approved for such distribution. This should occur no later than the time a confirmation of a transaction is delivered to each customer who enters into a transaction in options issues by the Options Clearing Corporation.
- In instances where an Options Disclosure Document was delivered to a client prior to a supplement being issued, ensuring that the supplement is delivered to the customer no later than the time a customer receives a confirmation of a transaction in the category of options to which the supplemental amendment pertains.

Monthly, we will review all uncovered options account files to verify that all paperwork is complete, and that the account has been opened according to all policies and procedures. We will maintain documentation of all such reviews in the files, including dates, names of individuals who undertook the review, scope of the review and all findings, including any corrective measures taken as a result of the findings.

The Compliance Department's designated ROSFP(s) will conduct reviews of all accounts that have traded in uncovered options to ensure that all required letters have been executed. We will maintain documentation of all such review findings and any corrective measures taken if deemed necessary in the files.

The appropriate ROSFP(s) will review all uncovered option trades NO LATER THAN THE DAY AFTER TRADE DATE as required by FINRA Rule 2360.

SPECIAL DISCLOSURE STATEMENT
FOR UNCOVERED OPTION WRITERS

It is important that you understand that there are special risks associated with uncovered option writing that may expose you to potentially significant losses. This type of strategy, therefore, may not be appropriate for all clients approved with this broker-dealer for option transactions.

It is important that you are aware of the following.

The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risk position and may incur large losses if the value of the underlying instrument increases above the exercise price.

As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

Uncovered option writing is therefore suitable ONLY for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses and has sufficient liquid assets to meet applicable margin requirements.

In regard to margin requirements, if the value of the underlying instrument moves against an uncovered writer's options position, significant additional margin payments may be requested. If you do not make such margin payments, the stock of options positions in your account may be liquidated with little or no prior notice, in accordance with your margin agreement.

For combination writing, where you write both a put and a call for the same underlying instrument, the potential risk is unlimited. If a secondary market in options were to become unavailable, you could not engage in losing transactions and would remain obligated until expiration or assignment.

The writer of an American-style option is subject to being assigned an exercise at any time after he or she has written the option, until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period.

It is important that you know that this statement is not intended to enumerate all of the risks entailed in writing uncovered options. We suggest that you also read the booklet titled "Characteristics and Risks of Standardized Options" given to you upon the opening of your options account with this firm. We specifically direct your attention to the chapter that discusses risks associated with uncovered options.

_____ Date _____
(Customer's signature)

_____
(Customer's typed/printed name)

Original in customer file
Copy to client

Books and Records

Procedures and Documentation

A designated ROSFP must ensure that all required options books and records are appropriately maintained.

At least quarterly, 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.

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

Procedures and Documentation

All options accounts must receive prior approval from the ROSFP before opening and all suitability information must be completed. Further, the obligations of Regulation Best Interest must be met for any recommendations. 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 that 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 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 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.

- Additionally, we must ascertain that options risk disclosure forms are appropriately supplied to customers, with a signed form maintained in the customer's file.
- 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 determine that the customer receives a Characteristics and Risks of Standardized Options booklet (a joint publication of various SROs) at, or prior to, approval of the account for option transactions. We will attach proof of such to the new account information, with a signed form signifying receipt maintained in the customer file, in the form of either a cover letter or a note, dated and signed by the individual who supplied the document.
- 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 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 requirements do not apply to branches with three or fewer representatives, if either a Registered Options Security Futures Principal or a General Securities Sales Supervisor supervises the options activities of the branch.

The 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 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 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.

A Home Office supervisor (or appropriate designee) will review all options accounts, for every trade within T+1, on ProSurv 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.

Supervision Requirements and Principal Designations

Procedures and Documentation

Our CCO maintains a list of all ROSFPs affiliated with this broker-dealer, indicating the responsibilities of each for our fulfillment of options transactions supervisory functions.

Each ROSFP will be given, in writing, an explanation of his or her supervisory and oversight responsibilities and will receive appropriate training.

Uncovered Short Option Contracts

Procedures and Documentation

Our designated Registered Options Principal will ensure that we adhere to the requirements under FINRA Rule 2360 when approving a customer account for uncovered short options.

Our ROP will ensure that prior to transacting business with the public in writing uncovered short option contracts, we have appropriate written procedures governing the conduct of such business, which shall include, at least, the following:

(i) Specific criteria and standards to be used in evaluating the suitability of a customer for writing uncovered short option transactions;

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(ii) Specific procedures for approval of accounts engaged in writing uncovered short option contracts, including written approval of such accounts by a Registered Options Principal;

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_____

(iii) Designation of a specific Registered Options Principal(s) as responsible for approving customer accounts that do not meet the specific criteria and standards for writing uncovered short option transactions and for maintaining written records of the reasons for every account so approved;

_____

_____

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_____

(iv) Establishment of specific minimum net equity requirements for initial approval and maintenance of customer accounts writing uncovered short option transactions; and

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(v) Requirements that customers approved for writing uncovered short options transactions be provided with a special written statement for uncovered option writers approved by FINRA that describes the risks inherent in writing uncovered short option transactions, at or prior to the initial writing of an uncovered short option transaction.

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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

All appropriate information is promptly forwarded to beneficial owners of accounts.

For **equity securities**, the firm 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, the firm 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.

Notice to Members 03-15 addresses allowable fees that can be charged for distributing proxy and other materials. FINRA's December 2021 rule change to Rule 2251 further affected these reimbursement rates by making two key changes.

First, changes to Supplementary Material .01(a)(6) conformed with the NYSE's notice and access provisions. The rule clarified that the notice and access fees could also be charged for distributing investment company shareholder reports pursuant to the SEC's "notice and access" rules. However, a notice and access fee cannot be charged for any account an investment company pays a Preference Management Fee in connection with distributing investment company shareholder reports. Supplementary Material .01(a)(6) also provides the pricing tiers for charging these notice and access fees. To calculate the rate, we will aggregate all accounts holding shares of any class of stock of the applicable issuer eligible to receive the same distribution.

Second, changes to Supplementary Material .01(a)(7) explained that fees will not be imposed on nominee accounts containing only shares or units of the securities involved that were transferred to the account holder by the member at no cost.

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.

Retirement Products

Retirement Plan and IRA Rollovers

Background

From Regulatory Notice 13-45: *A plan participant leaving an employer typically has four options (and may engage in a combination of these options): (1) leave the money in his former employer's plan, if permitted; (2) roll over the assets to his new employer's plan, if one is available and rollovers are permitted; (3) roll over to an IRA; or (4) cash out the account value.*

Each choice offers advantages and disadvantages, depending on desired investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and the investor's unique financial needs and retirement plans. The complexity of these choices may lead an investor to seek assistance from a financial adviser, including a broker-dealer. Investors also may be solicited by financial services firms, including broker-dealers, regarding IRAs and retirement services.

A broker-dealer's recommendation that an investor roll over retirement plan assets to an IRA typically involves securities recommendations subject to FINRA rules. A firm's marketing of its IRA services also is subject to FINRA rules. Any recommendation to sell, purchase or hold securities must be suitable for the customer and the information that investors receive must be fair, balanced and not misleading.8 This Notice provides guidance on these activities and is intended to help firms ensure that they have policies and procedures in place that are reasonably designed to achieve compliance with FINRA rules.

DOL Prohibited Transaction Exemption 2020-02

Prohibited Transaction Exemption (PTE) 2020-02, which governs conduct by ERISA fiduciaries, took effect on February 16, 2021. Broker-dealers, IRAs and their employees, agents, and representatives that are investment advice fiduciaries are eligible for this exemption.

An ERISA fiduciary is determined by applying a five-part test:

- Render advice as to the value of securities or other property, or make recommendations as to the advisability of investing in, purchasing, or selling securities or other property;
- On a regular basis;

- Pursuant to a mutual agreement, arrangement, or understanding;
- That the advice will serve as a primary basis for investment decisions; and
- The advice is individualized to the needs of the plan (or retirement investor).

PTE 2020-02 requires that the investment professional and its supervisory financial institution provide a written acknowledgment that they are fiduciaries under ERISA and the Code, as applicable, with respect to fiduciary investment advice provided to the retirement investor. The written acknowledgement must be unambiguous.

The DOL has provided model language, which would have a fiduciary state:

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours.

Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

The PTE allows investment advice fiduciaries to receive compensation by providing fiduciary investment advice, including advice to roll over a participant's account from an employee benefit plan to an IRA or from one IRA to another.

The PTE would also allow financial institutions to enter into certain principal transactions with retirement investors where the institution purchases or sells certain investments from its own account. The exemption would extend to both riskless principal transactions and Covered Principal Transactions, as defined in the PTE. Principal transactions that do not fall into one of these categories are not covered:

1. Riskless principal transactions, which include transactions where a financial institution, after having received an order from a retirement investor to buy or sell an investment product, purchases or sells the same product for the financial institution's own account to offset the contemporaneous transaction with the retirement investor.

2. Covered principal transactions, which are defined in the Exemption as principal transactions involving certain types of investment:

- For purchases by the financial institution from a retirement plan or IRA, the term is broadly defined to include any securities or other investment property.
- For sales from the financial institution to a retirement plan or IRA, the PTE would provide more limited relief and would only apply to transactions involving:
    - corporate debt securities offered pursuant to a registration statement under the Securities Act of 1933,
    - U.S. Treasury securities,
    - debt securities issued or guaranteed by a U.S. federal government agency other than the Department of Treasury,
    - debt securities issued or guaranteed by a government-sponsored enterprise,
    - municipal bonds,
    - certificates of deposit, and
    - interests in Unit Investment Trusts.

Responsibility

The Compliance Department has the responsibility for the implementation and monitoring of our ERISA policy, practices, disclosures and recordkeeping.

Procedure

With regard to the Prohibited Transactions Exemption 2020-02, the following must be done:

- Apply the DOL's Impartial Conduct Standards;

  Recommendations must:

  - be subject to ERISA's prudence standard; and
  - not place the financial or other interests of the firm, its representative, or any affiliate or other party ahead of the interests of the retirement investor, or subordinate the retirement investor's interests to their own.

  In addition, the firm must:

  - charge reasonable compensation;
  - obtain (or provide) best execution (if applicable); and
  - not make materially misleading statements.
- Ensure our incentive practices are prudently designed to avoid misalignment of the interests of L.M. Kohn & Company and our investment professionals with the interests of the retirement investors in connection with covered fiduciary advice and transactions;
- For rollover transactions, document the specific reasons why a recommendation to roll over assets from a retirement plan to another plan or IRA, from an IRA to a plan, from an IRA to another IRA, or from one type of account to another would be in the best interest of the retirement investor;
- Disclose reasons for rollover advice to clients;

  From plan to IRA or IRA to plan:

- Alternatives to a rollover, such as leaving funds in the current plan or offering a cash distribution;
    - Fees and expenses associated with plan and IRA;
    - If employer pays for some or all administrative expenses; and
    - Different levels of service available through plan and IRA.

  From IRA to IRA or one type of account to another:

    - Describe services to be provided under a new arrangement.

  Other rollover factors to consider:

    - Distribution alternatives such as installments;
    - Required minimum distribution rules;
    - Protection from creditors and legal judgments;
    - Employer stock and NUA treatment;
    - Quality of customer support via phone, app, website, in-person, etc.;
    - Vested balances under $5,000 could have a "force-out"provision; and
    - Account consolidation.

- Maintain, for a period of six years, records demonstrating compliance with the Exemption and make such records available, to:

  o any authorized DOL employee;

  o any fiduciary of a retirement plan that engaged in an investment transaction pursuant to the Exemption;

  o any contributing employer and any employee organization whose members are covered by a retirement plan that engaged in an investment transaction pursuant to the Exemption; or

  o any participant or beneficiary of a retirement plan, or IRA owner that engaged in an investment transaction pursuant to the Exemption;
- Make disclosures to the retirement investor prior to engaging in a transaction in reliance on the PTE, including:

  o a written acknowledgment that L.M. Kohn & Company and our investment professionals are fiduciaries under ERISA and the Code, as applicable, with respect to any fiduciary investment advice provided to the retirement investor; and

- a written description of the services to be provided and L.M. Kohn & Company and our investment professional's material conflicts of interest that is in all material respects accurate and not misleading.

- Conduct and record keep a retrospective review, at least annually, that is reasonably designed to assist in detecting and preventing violations of, and achieving compliance with, the impartial conduct standards and the policies and procedures governing compliance with the PTE.

Additional Important PTE 2020-02 Financial Professional Procedures:

L.M. Kohn & Company requires its financial professionals to do a comparison of the fees and expenses related to the rollover transaction. This is to be done by having them obtain the customer's Participant Fee Disclosure Form - 404(a)(5) (sometimes also called the Investment Returns & Fee Comparison Notice) from their plan website, along with a copy of their most recent retirement plan/IRA statement. This information will be utilized to run a comparison expense/fee report through the Zack's Advisor Tool , Riskalyze, Morningstar, or a comparable software/tool that the financial professional prefers to use and a copy of that report will be provided to and discussed with the customer. The customer will verify that the expense/fee comparison took place by signing off on the appropriate rollover form. Included in the mandatory paperwork that must be completed for rollovers is the ERISA Retirement Plan Rollover Form or the IRA Rollover Form. These documents have the required PTE 2020-02 disclosures on it, along with customer affirmation acknowledging reading and understanding the PTE disclosures, as well as affirming that their financial professional has discussed the rationale (provided in section one of the form) as to why they believe the rollover to be in the best interest of the customer.

A copy of the Zack's, Riskalyze, Morningstar, or comparable report; the Participant Fee Disclosure Form; and the retirement plan/IRA statement is to be included with the application (if applicable) and rollover paperwork and then sent through the Financial Tracking system for Compliance Principal review/approval.

Retirement Plans: Disclosure Requirements (ERISA Rule 408(b)(2))

Procedures and Documentation

Our CCO, working with appropriate members of Senior Management, is responsible for determining whether we are a "Covered Service Provider," as that term is defined under ERISA Rule 408(b)(2).

( ) We have determined that L.M. Kohn & Company is not a "Covered Service Provider" and therefore we do not have any disclosure responsibilities to Plan Administrators under 408(b)(2).

( ) We have determined that L.M. Kohn & Company is a "Covered Service Provider" and we do have disclosure responsibilities to Plan Administrators under 408(b)(2). Therefore, the following supervisory / oversight policies and procedures are in effect.

Our CCO is responsible for ensuring that we meet our disclosure requirements to Plan Administrators allowing them to meet their obligations under ERISA Rule 408(b)(2).

Our CCO will maintain a list of all the covered Plans for which we are a Covered Service Provider ("CSP") to ensure that required disclosures are made to each.

Information required to be disclosed by us, to all covered Plans for which we act as a CSP must be furnished in writing (to a responsible plan fiduciary). The rule does not require a formal written contract delineating the disclosure obligations.

We are required to describe the services which are, or will be, provided and all direct and indirect compensation to be received by a CSP, its affiliates, or subcontractors.

"Direct compensation" is compensation received directly from the covered plan.

"Indirect compensation" generally is compensation received from any source other than the plan sponsor, the CSP, an affiliate, or subcontractor.

To enable a responsible plan fiduciary to assess potential conflicts of interest, in instances where we disclose "indirect compensation," we must also describe the arrangement between the payer and this firm pursuant to which indirect compensation is paid.

We must identify the sources for indirect compensation, plus services to which such compensation relates.

Compensation disclosures by CSPs will include allocations made to related parties (i.e., among any affiliates or subcontractors) when such allocations occur because of charges made against a plan's investment or are set on a transaction basis.

As a CSP, we must also disclose whether we are providing recordkeeping services and the compensation attributable to such services, even when no explicit charge for recordkeeping is identified as part of the service "package" or contract.

Some CSPs must disclose an investment's annual operating expenses (e.g., expense ratio) and any ongoing operating expenses in addition to annual operating expenses. For participant-directed individual account plans, such disclosures must include "total annual operating expenses" as required under the DOL's participant-level disclosure regulation at 29 CFR §2550.404a-5.

The Rule contains a "pass-through" for investment-related disclosures furnished by record keepers or brokers. A CSP may provide current disclosure materials of an unaffiliated issuer of a designated investment alternative, or information replicated from such materials, provided that the issuer is a registered investment company (i.e., mutual fund), an insurance company qualified to do business in a State, an issuer of a publicly-traded security, or a financial institution supervised by a State or Federal agency.

We may use electronic means to disclose information under the 408(b)(2) regulation to plan fiduciaries provided that our disclosures on a website or other electronic medium are readily accessible to the responsible plan fiduciary, and the fiduciary has clear notification on how to access the information.

Retirement Plans: Communications with the Public (ERISA Rule 405a-5)

Responsibility

Our CCO and Compliance Manager is responsible for ensuring that our disclosure requirements (under DOL Rule 408(b)(2) do not inadvertently violate any FINRA rules.

Procedure

Our CCO will meet with our Advertising Principal (unless those two tiles are held by the same individual, in which case the CCO will work alone), minimally on a quarterly basis, to review all disclosures we have made (under DOL Rule 408(b)(2) to Retirement Plan Administrators, which will, in turn, be disseminated by the Plans (as required under DOL Rule 405a-b) to all Plan Participants to ensure that:

> if more than the 408(b)(2) required disclosures are included (i.e. an advertisement or item of sales literature content that promotes a product or service of the firm, that is in addition to what is required), the non required content was appropriately handled as being subject to the content and filing requirements of FINRA Rule 2210.
>
> Brochures, mailings and other materials containing **ONLY** the DOL-required disclosures are not required to be filed with FINRA pursuant to FINRA Rule 2210, nor is the information subject to the content requirements of FINRA Rule 2210.
>
> Documentation of all meetings, reviews and other oversight efforts will be maintained by our CCO.

Securities Backed Lines of Credits (SBLOCs)

Background

SBLOCs are revolving, non-purpose loans that allow investors to borrow money from lending institutions using fully paid-for securities held in their brokerage accounts as collateral. FINRA is concerned about how they are marketed. Proceeds are typically used to purchase a second home, luxury items or pay other expenses. Eligible securities collateralizing SBLOCs include stocks, bonds and mutual funds that are held in fully paid, cash accounts. The independent regulator defines SBLOCs as revolving loans collateralized by stocks, bonds and mutual funds that are held in fully-paid cash accounts. FINRA is concerned that financial advisers may not be fully disclosing all of the potential risks to investors and has said that securities-backed loans "carry significant credit and call risk." "In addition, they are difficult to value, have longer settlement time than other investments and are relatively illiquid," the regulator said. In addition, FINRA has concerns about investors over-leveraging their portfolios, which can fluctuate greatly and "come back to bite them – in much the same way that many homeowners over-leveraged their mortgages with home equity lines of credit before the financial crisis hit in 2008."

RBC Correspondent Services offers through RBC Bank a premier a line of credit based on the assets in the client's account. Each line of credit is for a minimum of $500,000.00, lines may be fixed rate or variable. RBC determines the lending levels based on the types of assets in the account - typically 70% is the most RBC will lend. RBC Bank has the right to issue collateral calls, or securities sales to meet sufficient collateral to support the credit line. Every new line of credit must be approved by RBC as well as LMK in writing prior to funding any loan. The signing supervisory will ensure the loan is suitable for the client situation. Suitable situations may include:

1. Refinancing high cost debt

2. Meet Real Estate Financing Needs on a short term basis (less than 3 years)

3. Business financing

4. Personal liquidity to avoid selling securities subject to capital gains liability

5. Satisfy other tax obligations

6. other reasonable short term liquidity needs for purchases, payments or liabilities

Our CCO will ensure that a quarterly review of every account that is participating in the RBC Premier Line of Credit is memorialized. The appropriate OSJ will notify the registered representatives if a loan is getting close to a collateral call.

Responsibility

Our CCO is responsible for working with appropriate supervising principals to ensure that we have proper controls in place to supervise these programs.

Procedure

Client files must contain documentation indicating they have been fully apprised of program features, including loan restrictions and how changing market conditions may affect their brokerage account and their ability to draw on the SBLOC. Our operational procedures will effectively enable us to interact with lending institutions to monitor the customer's account, keep adequate records and ensure that customers are promptly notified when collateral shortfalls occur.

Responsibilities

1. The CCO or other appropriate supervisor will review the accounts utilizing the premier line of credit on a quarterly basis. These account reviews will be memorialized in hard copy and kept in a binder in the CCO's office.
2. The CCO will notify the appropriate the OSJ of any potential collateral shortfall and instruct the OSJ to contact the registered representative to contact the client immediately to address the collateral shortfall.

Securities Lending

Procedures and Documentation

Our FINOP and our CCO, as appropriate, will oversee all activities relating to securities lending.

Written Lending Agreement

We will obtain a signed Master Lending Agreement from all securities-lending counter-parties, including other broker-dealers, banks, mutual funds, and any other institutional entities that act as custodians.

All such agreements, including any other form of agreement used for this purpose, must be signed by the counter-party and this broker-dealer and then reviewed by our CCO and appropriate legal counsel. We will maintain documentation of this review, including initials and dates.

Collateral

We will only accept or provide the following as collateral for securities lending transactions:

- Cash,
- U.S. government securities, or
- An irrevocable letter of credit.

Securities will not be loaned or borrowed for any purpose that is in violation of Regulation T.

Securities, including convertible debt securities (considered equity) and non-exempted equity securities, may only be borrowed for permitted purposes, such as making delivery on a short sale or conducting a matched book lending business.

When accepting or providing collateral, our CCO will ensure the instrument is appropriate and that no potential Regulation T violations exist, documenting such facts appropriately in the files.

Transaction Memorandum

We will make a record of original entry on all securities borrowed or loan transactions. This record will contain at least the following information:

- Date of transaction,
- Name of borrower or lender,
- Quantity and name of securities,
- Description of collateral to be received or given,
- Premium or interest, or formula for determining premium or interest, to be paid or received, and
- Date and terms of delivery or receipt

We will maintain records indicating by initials the individual who reviewed them and the dates of such review. These records will include:

- Contract amount, date of delivery or receipt, identification of the borrower or lender, date and amounts of marks-to-market, and date securities returned or recalled
- Copies of fee or interest bills received or sent which identify the parties, amount to be paid or received, the transactions concerned, and the dates paid or received
- Separate expense records for entertainment, gratuities, and other payments made to finders and employees of other broker-dealers or institutions
- Prior to engaging in any lending transactions, all counter-parties will undergo credit screening by our credit analysts and credit limits will be established for each counter-party

Expenses

Our CCO will authorize and control the department's expenses, and monthly, our FINOP will review the expenses, evidenced by initials and dates.

Operations

Under the direction of our CCO, the Operations Department will conduct an immediate review of all securities lending transactions to determine the following:

- Accuracy of security description and quantity
- Correctness of dates
- Satisfaction of mark-to-market requirements
- Promptness of securities loan recall
- Necessity for borrowing of securities by comparing securities borrowed with our proprietary and customer positions
- Whether all payable and receivable information agrees with actual receipts and disbursements prior to payment

Transaction Review

Our CCO will coordinate with our FINOP to ensure that adequate reviews are undertaken to identify if any risk management/net capital implications are raised by our securities lending business. Among these risk management concerns are loan/borrow transactions for concentrations in single issues, exceptional volume with one broker or institution, and net capital charges relating to differences between securities lending contract value vs. market value of the underlying securities subject to the lending contract, as noted in the Exchange Act Net Capital Rule 15c3-1.

We will maintain evidence of all reviews with the appropriate supervising principal initialing and dating the material reviewed. Where more extensive reviews are taken, we will maintain written documentation of the reviews including:

- Scope of the review
- Individuals undertaking the review
- Pertinent findings in the review
- Any remedial actions taken, if necessary
- Other relevant information relating to the specific review

Our CCO will maintain all files relating to securities lending activities. Those activities that require FINOP review and/or involvement will also be maintained by our FINOP.

Special Purpose Acquisition Companies (SPACs)

Policy Requirements

L.M. Kohn & Company prohibits its registered representatives from soliciting special purpose acquisition companies (SPACs).

SPACs are shell companies that raise capital in initial public offerings (IPOs) for the purpose of merging with or acquiring an operating company. The capital raised is placed into a trust prior to the acquisition of the business.

In 2021, FINRA issued a report which highlighted the risks involved in the formation and initial public offerings of SPACs . The report details a number of risks that firms should look to with SPACs. They include:

- insider trading - specifically possession of and trading by underwriters and SPAC sponsors with material nonpublic information related to, among other things, SPAC acquisition targets, including private placement offerings with rights of first refusal provided to certain investors prior to the acquisition;
- misrepresentations and omissions in offering documents and communications;
- fees associated with SPAC transactions; and
- control of funds raised in SPAC offerings.

- The SEC has also expressed concerns including risks from fees, conflicts, and sponsor compensation, from celebrity sponsorship and the potential for retail participation drawn by baseless hype, and the sheer amount of capital pouring into the SPACs.

Sweep Program (Money Market Cash Sweeps)

Procedures and Documentation

Our CCO will ensure that our Sweep Program is effectively supervised.

For clients who have indicated (upon opening an account) a desire to participate, we offer a cash sweep program through the clearing firm / custodian available to clients. The cash sweep program invests any uninvested client cash balances not earning interest. The cash sweep program automatically sweeps (deposits) any available cash in the account into interest-bearing money market funds. The invested fund balances remain until these balances are invested, otherwise needed to satisfy obligations arising from the client account, or requested by the client for payment.

Prior to approving new accounts, supervising principals will determine that the following have occurred:

1. A money market fund option has been selected by the client and recorded on the new account form.
2. There is documentation as to the client's verbal authorization of the fund selection.
3. The client has been given a time frame by which the verbal authorization must be followed up by written authorization.
4. A designated associate is made responsible for tracking the time period for written authorization. Documentation must be returned within 90 days from the date the client account opened at the custodian.
5. The designated associates will follow up on the delivery of the signed authorization form in 30 day intervals with the registered representative and branch manager.
6. Any client documentation not received at the end of the 90 days will cancel the participation of the money market sweep process.
7. A change to the authorized sweep program will require the completion of new documentation (verbal authorization). The disclosure form and new account form documenting the change must be authorized by the client. The completed form must be returned within 30 days to the designated associate to avoid cancellation of participation in the newly-selected money market sweep program.
8. Appropriate sweep account disclosure statements will be included with the disclosures on the firm website and client custodial statements.
9. We have communicated the alternatives for cash management available to customers, the terms provided by the sweep program, and any alternatives.

Use of Negative Response Letters to Designate an Alternative Money Market Sweep Fund When Existing Sweep Fund Closes with Inadequate Notice

A May 15, 2008 FINRA "Staff Interpretive Memo" was issued indicating circumstances under which we would not be required to wait for the 30-day negative consent period in accordance with FINRA Rule 3260(d)(2)(D). If we find ourselves in a situation where a fund advises us that it intends to close or limit new fund share purchases, our CCO will review the Interpretive Notice to ensure that we act in accordance with both the Rule and the Interpretive Notice.

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.

Bonus Annuities

Procedures and Documentation

Our CCO will undertake sufficient surveillance activities to ensure that all transactions of variable products are suitable and in compliance with all relevant rules and regulations.

Our designated supervising principals are responsible for ongoing oversight of all individuals for whom they have direct supervision relating to variable product transaction activities, and monitoring these individuals to ensure they are fully aware of the rules, regulations, and regulatory concerns, surrounding this product.

In addition to overseeing that all appropriate registered personnel receive sufficient training, our CCO will ensure that sufficient surveillance and review activities are undertaken to enforce compliance in all areas.

Bonus annuity transactions, if not prohibited, should only occur occasionally. If we permit bonus annuity transactions, all supervising principals must carefully review all such transactions to verify that all appropriate disclosures were clearly made and that customers were advised of all fees and charges which may ultimately negate the up-front bonus. A written acknowledgement of understanding must be signed by the client, the registered individual servicing the account and the supervising principal. In signing the document, the principal indicates that his or her review found the transaction appropriate and suitable. Individuals who excessively engage in bonus annuity transactions will be called in for a discussion and will have all their customer files reviewed in-depth, under the supervision of our CCO.

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, only with the following:

- 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

Our CCO ensures that appropriate variable product prospectuses are available.

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

Background

New FINRA Rule 2821 goes into effect on May 5, 2008, with the exception of Section (d) which is the "Principal Review and Approval" section of the rule. The rule requires that VA applications be reviewed by the home office approving supervisor within seven days of client signature date on **the application.** In order for LMK to comply with this regulation, we require all VA applications be delivered to LMK home office for review and approval purposes within **six** days of the client signature date on the application

Responsibility

Principals given responsibility for reviewing, and approving or rejecting, variable annuity purchases and exchanges are designated for having responsibility for adherence to FINRA Rule 2330 requirements.

The Compliance Department will ensure that appropriate training is given to all such supervising principals.

Procedure

All variable annuity transactions (i.e., purchases and exchanges) will be reviewed to ensure full compliance with Rule 2330.

Non-recommended transactions will be reviewed to ensure sufficient documentation exists to validate the claim that the transaction was not recommended to the investor.

For all recommended transactions (i.e., purchase and exchanges) we will retain documentation in each client file indicating the date when the appropriate OSJ received the complete and correct application package.

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 the firm is 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 prepare and 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 prepare and 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.

All individuals tasked with reviewing variable annuity transactions have been given sufficient training to understand that if any one or more of the above seven (7) conditions are absent, our ability to hold customer checks for the seven (7) day period no longer apply and doing so may place us in net capital or other rule violation

Checks accompanying applications will be logged onto a separate Variable Annuity Checks Received/Disbursed Log, as these are the only checks that may be held by this broker-dealer for 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 receipt of logged date of receipt of the complete and correct application at the appropriate OSJ. (PLEASE SEE FURTHER IN THESE WSPs THE SECTION TITLED "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.

The determinations required by the foregoing must be documented and signed by the associated person recommending the transaction.

Designated supervisors are sufficiently trained (both in the respective features of these products and in our supervisory protocols) to understand the necessity to closely monitor sales of the product and the

riders selected.
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

In instances where a principal determines that a recommended variable annuity transaction is not suitable, he or she may authorize the processing of the transaction if it can be determined the transaction was not recommended and if, after being informed of the reason why the principal has not approved the transaction, the customer affirms that he or she wants to proceed with the purchase or exchange.

The customer's affirmation must be obtained in writing.

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.

All reps and their supervising principals will be given sufficient training (as outlined in our CE Needs Analysis and Training Program documents) to ensure their complete understanding of the characteristics of L share VAs, including features such as: shorter surrender period, higher declining surrender fees, and higher mortality and expense fees.

A client's investment time horizon must be considered. Clients who purchase L share VAs should not have a long term time horizon—at least 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.

Designated supervisors are sufficiently trained (both in the respective features of these products and in our supervisory protocols) to understand the necessity to closely monitor sales of the product and the riders selected.

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 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

Responsibility

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.

Our designated supervising principals are responsible for ongoing oversight of the day-to-day activities of those individuals under their immediate supervision and all activities related to variable product transactions, and that the individuals are fully aware of the rules, regulations and regulatory concerns surrounding this product.

Procedure

In addition to ensuring that all appropriate registered personnel receive sufficient training regarding variable products, our CCO will see that sufficient surveillance and review activities are undertaken to ensure compliance in all areas.

The replacement of variable life insurance and annuity contracts, especially within the same company, is an issue of great concern with the regulators and is therefore a matter taken seriously by this firm.

Replacements may only occur after careful reviewed by an appropriate supervising principal to ensure that the proposed transaction is in the best interest of the customer which is always the primary concern of this company and its employees.

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 and every 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 to have the representative receive 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.

Replacements should occur on a very limited basis and under no circumstances may employees undertake any sales activities involving contacting former or current clients for the purpose of having them replace their existing coverage. All such transactions must be clearly advantageous to the client. In such instances where it is deemed to be appropriate and beneficial to the client, 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 available.

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 there 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 (which replaced

NASD Rule 2821)), the transaction will undergo an in-depth review to determine suitability. Our CCO will maintain documentation of all such in-depth reviews, including date, name of individual who undertook the review, client and registered personnel involved, final determination, corrective measures taken and any internal disciplinary measures enforced.

For 1035 Exchanges, representatives are required to complete the 1035 Exchange form. This form must be accompanied with as much informaiton about the existing policy or contract as possible along with as much informatiion about the new proposed policy or contract. It must be disclosed on the form whether the client has completed a 1035 exchange in the last 36 months.

These forms must be submitted along with the LMK Acknowledgement forms as well as any illustrations, fact sheets, or prospectus used defining the terms, sub account options and expenses as well as a copy of the client's most recent statement of the VA that money is exchanging out of. The VA form must clearly identify what provisions the new contract offers vs. the existing contract in order to complete a 1035 exchange. These must be signed by the client affirming all disclosures have been made and that the suitability thresholds for the client are met.

Switching transactions occur when the full or partial proceeds from the sale of one investment product or certificate of deposit are used to purchase another investment product, and registered employees have the obligation to evaluate net advantages to the client of any switching transaction. Such transactions are generally 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.

A daily review will be undertaken to determine if any client funds have been switched from money market, CDs, mutual funds to annuities (or vice versa) to determine that the transaction was appropriate, suitable and that the required "mutual fund/annuity switch" letter, signed by the client, is on file. Such letter must acknowledge that the switch may initiate

- New sales load
- Contingent deferred sales charges
- New surrender period and charges
- Taxable transaction by switching, if applicable

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.

Quarterly, our CCO will request a listing of all specific deferred variable annuity products available for our registered personnel to offer to clients. Our CCO will maintain documentation regarding the development of our training plan on each of these specific products, and copies of all materials utilized for training, names of individuals receiving training, dates, etc.

Quarterly, our CCO will request from supervising principals the names of those individuals believed to require additional training, or new hires who have not yet received appropriate training. Our CCO will maintain documentation of all such efforts.

Our CCO will, with Senior Management and appropriate supervising principals, review our training plan annually. They will review records of all denied transactions and any complaints received concerning deferred variable annuity transactions, to help gauge the effectiveness of our training program.

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.

Private Placement Offerings

Policy Requirements

L.M. Kohn & Company prohibits it's registered personnel from commencing sales of private placement offerings. In certain rare cases, in order to accommodate a customer, it may be allowable (as an exception) but only with written approval from the Compliance Department.

Private Securities Activities

Responsibility

Our CCO is responsible for educating registered personnel on the requirements regarding selling away activities, for ensuring that adequate supervision is given to all such activities.

Our designated supervising principals have an ongoing responsibility to ensure that the individuals over whom they have supervisory responsibility, are aware of, and adhere to, the rules and requirements.

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 pass the SIE, and pass the General Securities Principal (Series 24) qualification examination.

Procedure

Prior to participating in any private securities transactions (i.e., selling securities away from this broker-dealer), employees must provide written notice to the Compliance Department, describing in detail the proposed transactions and the individual's proposed role therein. The notice must also provide a clear, detailed, explanation concerning any selling compensation that may be received in connection with the proposed transaction. In the case of a series of related transactions in which no selling compensation has been, or will be received, a single written notification will suffice.

Our CCO will determine whether the individual's participation in the proposed transaction is approved or denied (whether it is a non-affiliated RIA transaction for an associated person or a personal securities transaction) .

All approved transactions will be reviewed, and the individual's participation will be supervised as if the transaction or transactions had been executed on behalf of this firm. Our CCO will ensure that we undertake an annual 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. We will maintain documentation of the reviews in the files, including dates, the names of individuals who undertook the reviews, the scope of the reviews, findings and any corrective measures we may have taken.

We will also maintain documentation of all training given registered personnel on this matter, including dates, copies of training materials utilized, method of delivery (i.e., Annual Compliance Meeting, CE, compliance manuals, compliance alerts, online training, etc.), as well as the names and CRD #s of all individuals who received the training.