

Feltl and Company

SECURITIES BROKERAGE AND INVESTMENT BANKING

Written Supervisory Procedures

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Introduction

Feltl and Company, (“F&C”) is subject to the rules and guidelines issued by FINRA, due to the membership maintained in order to service customers in the Securities industry. Each member shall establish and maintain a system to supervise the activities of each registered representative, employee, and 5%+ Member/Owner (“associated person”) of F&C that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with the rules of FINRA. Final responsibility for proper supervision shall rest with the member.

FINRA Rule 3110 requires members to establish, maintain and enforce written procedures that will enable it to supervise its associated persons. In general, there should be sufficient detail to enable those with supervisory responsibilities to understand their obligations. The procedures should describe the supervisory system and not just be a compliance checklist for associated persons. They must contain the titles, registration status and locations of the individuals responsible for specific types of business engaged in by F&C. Firms are required to maintain on an internal record the names of all persons designated as supervisory personnel and the dates for which such designation was effective.

To protect against insider trading abuse, every registered broker-dealer (and investment advisor) is required to establish and enforce written supervisory procedures covering this topic pursuant to Section 15(f) of the 1934 Securities Act.

The member is required to amend its written supervisory procedures within a reasonable time after changes occur in applicable securities rules and regulations and changes in its supervisory system.

A copy of a member's written supervisory procedures, or the relevant portions thereof, is required to be maintained, electronic or hard copy, in each OSJ and at each location where supervisory activities are conducted.

Although FINRA is F&C’s primary regulator, the SEC also carries out oversight responsibilities. With respect to supervision pursuant to the Securities Exchange Act of 1934, the SEC has held that a violation of the Federal Securities Laws committed by officers or employees, is a violation by F&C itself, and that the degree of fault of F&C is a factor to be considered in determining the sanction to be imposed.

The SEC is also authorized to proceed separately against the broker-dealer, its officers and supervisory employees, for failure to supervise adequately the actual wrongdoers.

In this connection "no person shall be deemed to have failed reasonably to supervise any person, if - (i) there have been established procedures, and a system for applying such procedures, which would reasonably be expected to prevent and detect, in-so-far as practicable, any such violation by such other persons, and (ii) such persons reasonably discharged the duties and obligations incumbent upon him by reason of such procedures and systems without reasonable cause to believe that such procedures and systems were not being complied with."

Thus, a broker-dealer, its officers and supervisory employees must maintain reasonable supervision over F&C, with a view to preventing any violation of Federal Securities Laws.

F&C will conduct its business consistent with high standards of commercial honor and just and equitable principles of trade. F&C recognizes that F&C's success will be predicated upon maintaining trust and confidence with both its client companies and investors in F&C's client transactions and upholding F&C's reputation in the marketplace. Effective supervision is an integral part of achieving F&C's goals and servicing F&C's client companies and investors in F&C client transactions.

Compliance is not a static event; it is a process that evolves in tandem with regulations that govern F&C's industry and the circumstances of each particular interaction. This manual includes the supervisory policies and procedures that designated supervisors will use as guidance in their oversight of F&C's business. It is a working document and will be amended from time to time to reflect changes in industry's regulations, updates to supervisors or principals, and any other revisions the principals of F&C deem necessary.

Supervision may be delegated to others, where appropriate; however, the designated supervisors are responsible for ultimate supervision of assigned areas. The term "employee" as used in this manual includes associated persons (and others as identified by F&C) who may be employees or independent contractors for tax and compensation purposes.

This manual is divided into two parts – **Operations & Supervision** and **Products & Sales** which allows the appropriate portion from time to time to be updated and directed to the intended audience, i.e., back office operations and compliance staff or sales and marketing staff. Although this manual is very thorough, it does not and cannot cover every conceivable issue that might arise in the course of one's career. When questions come up that are not directly covered in this manual, an employee is expected to exercise common sense, good judgment, and a high sense of moral integrity. If an employee is ever unsure of how to respond appropriately to a particular situation, the employee should contact his or her department supervisor or branch manager, or F&C's legal or compliance departments.

Many of the policies and procedures contained in this manual are based directly on state and federal securities laws, FINRA rules and regulations, and reported court decisions. Those rules spell out the standards to which F&C must adhere. However, because of the significant litigation risks that brokerage firms face in today's society, many of the policies and procedures that F&C has adopted in this manual go beyond the literal legal requirements. In those cases, the policies and procedures are designed to protect F&C and its employees from the very real risk of customer lawsuits and arbitrations. Such policies and procedures do not and should not impose upon F&C duties to customers that are higher than the duties generally required in the securities industry.

The policies and procedures described in this manual apply only to activities and events occurring after the dissemination of this manual. Activities and events occurring before dissemination of this manual are governed by F&C's prior compliance manual. This manual may be modified at any time. All employees will receive written notice of any modifications, and are expected to keep current with such changes. This manual is F&C's property and may not be provided to anyone outside F&C without the express permission of F&C's legal or compliance departments.

All employees should read this manual thoroughly and make sure they understand it. If any employee has questions about this manual, he or she should discuss such questions with the appropriate department supervisor or branch manager, or with F&C's legal or compliance departments.

NOTICE OF CONFIDENTIALITY

Some of the information contained herein may have been extracted or excerpted from federal and/or state securities rules and regulations. All other information provided herein including format and design is confidential, proprietary information, is the property of Compliance Advisers, Inc., and has been intended for use solely by F&C. F&C individually and together with its officers, directors, employees, agents, contractors, consultants, affiliates, heirs and assigns, is prohibited from copying, reprinting, or otherwise distributing or providing all or any part of this information to any other party without the express written consent of Compliance Advisers, Inc., except as required by law.

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PART I - OPERATIONS & SUPERVISION

SECTION 1 – SUPERVISORY SYSTEM

1.1. General

FINRA rule 3110 states: “Each member shall 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 regulations, and with applicable FINRA rules. Final responsibility for proper supervision shall rest with the member.”

The following document details the supervisory system and supervisory control system employed by the firm to ensure compliance with the rules set forth by FINRA for member firms.

Policy. The implementation of effective supervisory policies and procedures are essential to the efficient and ethical operations of F&C and to protect F&C, its associated personnel, and its clients.

A periodic review of the business in which F&C engages is also important. The review should be conducted not just to comply with the FINRA rule, but also as a way to assist F&C in detecting and preventing violation of and achieving compliance with applicable securities laws and regulations.

All associated persons should be knowledgeable with respect to the activities and procedures expected of them, and with respect to F&C’s supervisory policies and procedures. As a way of ensuring that the firm’s associated persons are informed of existing policy and supervisory systems a copy of the firm’s Written Supervisory Procedures are made available to reps both in electronic and hard copy. This document is available to associated persons via the firm’s website.

Procedure. *In supervising its representatives, F&C has incorporated the following essential elements into its supervisory program to determine the necessity to escalate any occurrences of non-compliance with F&C’s written policies and procedures by assessing consequences at the discretion of the CCO.*

- *Obligations when hiring and supervising staff*
- *Reviewing and monitoring your business*
- *Follow-up and escalation of red flags*
- *Importance of documentation*
- *Common mistakes when delegating supervisory tasks*

The Chief Compliance Officer (“CCO”) for F&C is responsible for ensuring that the Firm’s

supervision system is in compliance over all aspects of the business conducted by the member. The duties can be delegated to other employees of F&C. Delegation of duties does not absolve the CCO of material gaps in the supervisory system.

1.2. Office of Supervisory Jurisdiction

FINRA defines an Office of Supervisory Jurisdiction (OSJ) as any office of a member at which any one or more of the following functions take place:

- Order execution or market making
- Structuring of public offerings or private placements
- Maintaining custody of customer funds or securities
- Final acceptance (approval) of new accounts on behalf of the member
- Review and endorsement of customer orders
- Final approval of retail communications for use by the persons associated with the member
- Responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the member

F&C must designate a manager for all OSJ's to be responsible for the review of the securities activities of associated persons, in such office, and in any other office of F&C.

Policy. F&C will designate each OSJ responsible for the review of the securities activities of associated persons in such office.

Procedure. *See Appendix one for a list of all offices designated as Offices of Supervisory Jurisdiction ("OSJ"). This list includes F&C's headquarters, which is registered with FINRA as OSJ branch office number 159266 at which John Feltl and Joe Johnston are the designated OSJ co-supervisors.*

1.3. Branch Office

The term "Branch Office" shall mean any location identified by any means to the public or clients as a location at which F&C conducts an investment banking or securities business, excluding any location identified solely in a telephone directory line listing or on a business card or letterhead, which such listing, card or letter also sets forth the address and telephone number of the branch office or F&C responsible for supervising the persons conducting business at the non-branch location.

Policy. F&C shall register any location identified as a branch office by any means to the

public or clients as a location at which F&C conducts an investment banking or securities business. F&C will also maintain a current list of F&C's branch offices in its internal record.

Procedure. See Appendix One for a list of all offices designated as branch offices and Appendix Two regarding the supervision of F&C's branch offices.

1.4. Basic Supervisory Procedures

Conduct Rule 3120 requires each member to designate one or more principals who will establish, maintain, and enforce a system of supervisory control policies and procedures that test and verify that the member's supervisory procedures are reasonably designed to comply with applicable securities laws and FINRA rules and amend those supervisory procedures where necessary. (See Appendix 2 - Designation of Supervisory Principals)

Policy. The CCO is responsible for both reviewing and testing F&C's supervisory policies and procedures on at least an annual basis or contracting with a third party to conduct independent testing of F&C's Written Supervisory Procedures.

Procedure. Recommendations for changes may be made on an ongoing basis or through a specific review of policies and procedures. A written record of the review will be retained, as well as any recommendations made during the review and subsequent changes made to supervisory procedures in response to those recommendations. F&C will at all times maintain a complete and easily accessible version of F&C's current Written Supervisory Procedures.

1.5. Assignment of Associated persons

Conduct Rule 3110(a)(5) requires the assignment of each registered person to an appropriately registered representative(s) and/or principal(s) who shall be responsible for supervising that person's activities.

Policy. F&C will assign each registered representative to an appropriately registered principal who will be responsible for supervising that person's activities.

Procedure. The CCO is responsible for ensuring that a supervisory system is in place and is in compliance with all industry rules and policies. Based on F&C's size and structure, it does not qualify for the "Limited Size and Resources" exemption under Rule 3120. The CCO will maintain a "Designation of Supervisors" (see Appendix 2) which includes the name of each supervisor, title, location, registrations and list of associated persons supervised.

1.6. Determining Qualifications of Supervisory Personnel

Conduct Rule 3110 requires reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities.

Policy. The implementation of effective supervisory policies and procedures is essential to the efficient and ethical operations of F&C, and to protect F&C, associated personnel, and clients. Therefore, F&C will only allow those who are appropriately qualified, evidenced by successful completion of the requisite examination and at least one (1) year of direct securities supervisory experience or two (2) years of indirect business and financial experience, to act as a registered principal of F&C.

Procedure. *To determine the qualifications of any supervisor, F&C will obtain the individual's most recent Form U-4 and, if applicable, Form U-5. F&C will review both forms and make reasonable efforts to confirm the information provided on Form U-4, or obtain additional information with respect to any for cause termination noted on Form U-5.*

1.7. Reviewing and Monitoring of Business

Requirement. Conduct Rule 3110 deals with the responsibility of Member firms to adequately supervise the securities activities of their associated persons and associated personnel, and to insure compliance with all applicable securities laws and regulations.

Policy. The CCO will be responsible for establishing and supervising procedures for monitoring and reviewing of securities business. These procedures will be implemented by Branch Managers, as the direct supervisor for Investment Executives associated with their Branch or OSJ Office. Compliance will oversee the supervision for Branch Managers to ensure that all rules are being followed in the course of conducting business with the public.

Procedure. Branch Managers have daily, monthly, and annual tasks they are required to conduct to meet their supervisory obligations.

On a daily basis, branch managers must review the daily transaction blotter, review and retain correspondence (electronic and written), review and approve account applications, review and submit to Compliance any customer complaints (both written and verbal), review and approve Cancel/Correct forms, and all other items outlined in the "Branch Manager Monthly Checklist". Additional details can be found in Sections 8 and 9.

On a periodic basis, branch managers must review monthly commission, conduct Investment Executive reviews, review active account reports delivered on a quarterly/annual basis, complete and return the “Branch Manager’s Monthly Checklist”.

Annually, branch managers must complete the BOM audit questionnaire, ensure all branch members complete annual compliance forms, perform an Investment Executive review on every branch member, attend annual compliance meeting, and any other branch manager training.

Compliance will oversee the supervision of Branch Managers. Daily monitoring would be conducted using trade exception reports, quarterly commission analysis, and spot checks on account suitability updates. Monthly and Annual monitoring would be conducted through creating active account monitoring, reviewing annual Investment Executive reviews, and performing OSJ and Branch Audits.

1.8. Annual Compliance Meeting or Interview

Conduct Rule 3110 requires the participation of each registered representative, individually or collectively, no less than annually, in an interview or meeting conducted by persons designated by the member; at which compliance matters relevant to the activities of the representative(s) are discussed. Such interview or meeting may occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the representative’s place of business.

Policy. The CCO will be responsible for coordinating, administering and monitoring attendance at F&C’s Annual Compliance Meeting no less than annually.

Procedure. *The date, time, and location of this meeting will be determined by the CCO and confirmed with F&C management. Evidence of this meeting will be maintained in writing and will include a copy of the meeting’s agenda, copies of any handouts, a roster signed by each registered representative as evidence of participation, and a list of any pending matters which require follow-up. Attendance by all registered persons at the annual compliance meeting will be mandatory.*

1.9. Rule 3120 Supervisory Control System

Requirement. Conduct Rule 3120 requires each member to designate one or more principals who will establish, maintain, and enforce a system of supervisory control policies and procedures that:

- test and verify that the member’s supervisory procedures are reasonably designed with respect to the activities of the members and its associated

persons, to comply with applicable securities laws and FINRA rules Create additional or amend supervisory procedures where the need is identified by such testing and verification

The designated principal(s) are required to submit a report to senior management at least annually detailing the supervisory system and a summary of testing results and significant exceptions identified and any additional or amended procedures created based on testing results.

NOTE: Rule 3120 states in any calendar year following a year which a member reports \$200 million or more in gross revenue the report, to the extent applicable to the member's business, **must include:**

- a tabulation of the reports for customer complaints and internal investigations made to FINRA in the prior year, and
- a discussion of the prior year's compliance efforts, including procedures and education regarding the following areas
 - trading and market activity
 - investment banking activities
 - antifraud and sales practices
 - finance and operations
 - supervision , and
 - anti-money laundering

Policy. The CCO has been designated as responsible for the maintenance of the firm's supervisory system. As such the CCO and any other principals as necessary will **annually** provide a report to senior management detailing any material findings from testing and remediation of the findings.

Procedure. *The CCO shall establish, maintain, and enforce written procedures to supervise the types of business in which F&C engages and to supervise the activities of registered representatives and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations. Recommendations for changes may be made on an ongoing basis or through a specific review of policies and procedures. A written record of the dates of the review will be retained, as well as the steps taken to conduct the review.*

1.10. Internal Controls Procedures

Requirement. The existence of a strong, comprehensive and realistic internal compliance system is essential for guiding the daily activities of F&C. Evaluating the effectiveness of an internal compliance system is an ongoing task of a Firm's CCO and requires the talent to recognize not just the obvious weaknesses in the system but also to recognize

potential weaknesses in the system.

Policy. The CCO will establish, maintain and enforce supervisory control procedures that will test and verify that F&C's supervisory procedures are sufficient and amend or create additional supervisory procedures where the need is identified by such testing and verification. F&C shall test and verify the applicability of F&C's supervisory procedures on an annual basis. The CCO is responsible for coordinating an internal review of the WSP's. FINRA has provided the Written Supervisory Procedures Review Checklist as a guide to firms. The CCO will determine areas to be tested based on review of various sources (i.e. prior internal audit, published regulatory guidance, annual exam letters etc.). The CCO will maintain copies of the testing documentation and the finalized report for future review. Resulting remediation plans for identified gaps should also be maintain with the finalized report. Testing of the Supervisory Control Procedures will be completed and a full report provided to the firm's CEO in compliance with FINRA rule 3130.

Procedure. *The CCO will determine areas to be tested based on review of various sources (i.e. prior internal audit, published regulatory guidance, annual exam letters etc.). The CCO will maintain copies of the testing documentation and the finalized report for future review. Resulting remediation plans for identified gaps should also be maintain with the finalized report.*

1.11. Supervision of Supervisory Personnel

Requirement. Rule 3110 requires a firm have procedures prohibiting supervisory personnel from 1) supervising their own activities and 2) compensation or continued employment determined by a person the supervisor is supervising.

Policy. Producing Manager activities and reviews will be conducted by the CCO, or designee, in order to avoid any potential conflicts of interest to the Producing Manager.

Procedure. *On a periodic basis the CCO, or designee, will meet with any Producing Manager to discuss their individual performance and will on continuous basis review and monitor the activities of the same.*

1.12. Office Inspections

Requirement. Rule 3120 also requires firms to codify the minimum inspection cycles for its offices and to require that office inspections include, without limitation, the testing and verification of F&C' policies and procedures, including supervisory policies and

procedures in certain specified areas. There is a general requirement that an office inspection may not be conducted by the branch office manager for that office, any person within that office who has supervisory responsibilities, or any individual who is directly or indirectly supervised by such persons.

However, if a member is so limited in size and resources that it cannot comply with this limitation, the member may have a knowledgeable principal perform the inspections.

Policy. The CCO is responsible for developing a schedule and cycle of reviews as well as for conducting the above-required reviews or directing or delegating the conduct of those reviews in his/her stead, and making a record of when the reviews are conducted.

Procedure. *Such review may include, but not be limited to, supervisory controls, profit/loss analysis, books and records preparation and retention, compliance with F&C's Membership Agreement, and compliance with current regulatory rules. See "Branch Office" section of the Manual for details.*

1.13. Supervision of Producing Managers

Requirement. Rule 3120 requires that a person senior or "otherwise independent" to a producing manager perform the day-to-day supervisory reviews of the producing manager's account activity. However, if a member is so limited in size and resources that it cannot comply with this general supervisory requirement, the member may have a knowledgeable principal perform the supervisory reviews.

FINRA understands that the determination of seniority for the purpose of deciding who should conduct a producing manager's supervisory reviews is a facts and circumstances test. A person who does not report to the producing manager, whose compensation is not determined in whole or part by the producing manager, and who is not in the same chain of authority may be considered senior to the producing manager if that person has the authority to oversee, direct, and correct the activities of the producing manager and take all necessary remedial actions, including termination, if and when necessary.

Policy. F&C's supervisory controls must include procedures that are reasonably designed to review and supervise on a day-to-day basis the customer account activity conducted by the member's branch office managers, sales managers, regional or district sales managers, or any person performing a similar supervisory function. A person who is senior to or "otherwise independent" of the producing manager must perform these day-to-day supervisory reviews. An associated person is considered a producing manager regardless of the amount of customer account activity the producing manager conducts.

Procedure. The CCO or his/her designee will supervise the daily activity of all producing managers at F&C. See “Supervision of Supervisory Personnel” for more information.

1.14. CEO’s Annual Certification

Requirement. Rule 3130 requires each member firm’s chief executive officer (“CEO”) to certify annually that senior executive management has in place processes to: (1) establish, maintain, and review policies and procedures reasonably designed to achieve compliance with applicable FINRA rules, Municipal Securities Rulemaking Board (MSRB) rules, and federal securities laws and regulations; (2) modify such policies and procedures as business, regulatory, and legislative changes and events dictate; and (3) test the effectiveness of such policies and procedures on a periodic basis, the timing of which is reasonably designed to ensure continuing compliance with FINRA rules, MSRB rules, and federal securities laws and regulations.

Each member shall have its CEO (or equivalent officer) certify annually that the member has in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations, and that the CEO has conducted one or more meetings with the CCO in the preceding 12 months to discuss such processes.

The certification includes not only a statement that the member has in place certain compliance processes, but also that the CEO has conducted one or more meetings with the CCO in the preceding 12 months to discuss the processes. The interpretive material explains that the mandated meetings between the CEO and CCO must include a discussion of the member’s compliance efforts to date and identify and address significant compliance problems and plans for emerging business areas. FINRA notes that for certain members, the size, nature, and complexity of their business may warrant more than one annual meeting between the CEO and CCO.

The certification also includes a declaration that the CEO has consulted with the CCO and such other officers, employees, outside consultants, lawyers, and accountants, to the extent necessary to attest to the statements in the certification.

Policy. F&C’s CCO will meet no less than annually with the CEO of F&C to certify that it has in place processes to:

- establish, maintain, and review policies and procedures reasonably designed to

achieve compliance with applicable FINRA rules, Municipal Securities Rulemaking Board (MSRB) rules, and federal securities laws and regulations;

- modify such policies and procedures as business, regulatory, and legislative changes and events dictate; and
- review the effectiveness of such policies and procedures on a periodic basis, the timing of which is reasonably designed to ensure continuing compliance with FINRA rules, MSRB rules, and federal securities laws and regulations.

The CCO is also responsible for reviewing F&C's supervisory policies and procedures on at least an annual basis and for testing or contracting with a third party to conduct independent testing of F&C's Written Supervisory Procedures to be sure that all rules are addressed. Recommendations for changes may be made on an ongoing basis or through a specific review of policies and procedures. A written record of the dates of the review will be retained, as well as the changes made pursuant to the review.

Procedure. F&C's processes will be evidenced in a CEO Certification (See Appendix 3) subsequent to the CEO's review of a report reviewed prepared by the CCO (or equivalent officer) and such other officers as F&C may deem necessary to make this certification. The final report will be submitted to the Member's Board of Directors (or equivalent body) at the earlier of their next scheduled meetings or within 45 days of the date of execution of the certification. A written record of the dates of the review will be retained, as well as the steps taken to conduct the review and all supporting documentation.

- *Firm shall designate and identify a CCO on Schedule A of Form BD;*
- *the CEO has conducted one or more meetings with the CCO in the preceding 12 months to discuss such processes;*
- *The CCO has conducted or directed the conduct of internal controls testing of F&C's processes to establish, maintain, test and modify written compliance policies and procedures and prepared a report of findings and recommendations for the CEO's review;*
- *The CCO has provided the CEO with a copy of the written report of findings and recommendations; and,*
- *The CEO shall certify annually that F&C has in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable NASD rules, MSRB rules and federal securities laws and regulations.*

1.15. Supervisory Personnel

Requirement. Conduct Rule 3110 requires the member's written supervisory procedures shall set forth the supervisory system established by the member, and shall include the titles, registration status and locations of the required supervisory personnel and the responsibilities of each supervisory person as these relate to the types of business engaged in, applicable securities laws and regulations, and the Rules of FINRA. The member shall maintain on an internal record the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective. Such record shall be preserved by the member for a period of not less than three years, the first two years in an easily accessible place.

Policy. F&C will maintain an internal record of supervisory personnel and their responsibilities as they relate to the types of business engaged in accordance with the requirements of the Rule.

Procedure. The CCO for F&C is responsible for the supervision over all aspects of the member's compliance program. The CCO will develop and maintain a current list of supervisory personnel including their responsibilities, registration status, title, location, names of reps supervised, effective dates, etc. as required by the Rule. (See Appendix 2). Designated supervisors are responsible for supervision of F&C's securities business.

1.16. Outsourced Business Functions

Requirement. Regardless of its size or complexity, each member must adopt and implement a supervisory system that is *tailored specifically to the member's business* and must address the activities of all its associated persons. *Ultimate responsibility for supervision rests with the member.*

Policy. In the event that F&C outsources any of its business functions, F&C will perform a due diligence analysis of prospective third-party service providers to determine whether they are capable of performing the outsourced activities to ensure compliance with applicable securities laws and regulations and FINRA rules.

Procedure. Although F&C does not currently outsource any business functions, in the event that it does in the future, F&C will perform a due diligence analysis of all of its current or prospective third-party service providers to determine whether they are capable of performing the outsourced activities to ensure compliance with applicable securities laws and regulations and FINRA rules. Initially and on an ongoing basis, F&C would consider certain factors when determining the appropriateness of outsourcing certain functions such as:

- *the financial, reputational, and operational impact on F&C if the third-party service provider fails to perform;*

- *the potential impact of outsourcing on F&C's provision of adequate services to its customers; and,*
- *the impact of outsourcing the activity on the ability and capacity of F&C to conform to regulatory requirements and changes in requirements.*

1.17. Distribution of Procedures and Amendments

Requirement. Conduct Rule 3110 requires a copy of a member's written supervisory procedures, or the relevant portions thereof, shall be kept and maintained in each OSJ and at each location where supervisory activities are conducted on behalf of the member. Each member shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, and as changes occur in its supervisory system, and each member shall be responsible for communicating amendments through its organization.

Policy. All associated persons are required to read F&C's Written Supervisory Procedures and be knowledgeable with respect to any prohibited activities and procedures expected of them, and with respect to F&C's supervisory policies and procedures.

Procedure. *F&C will distribute a copy of this manual to each associated person upon initial hire and upon any published revised manual thereafter and obtain written acknowledgement from the associated person of receipt, understanding and willingness to comply with the policies and procedures therein (See Appendix 4). In addition, F&C will distribute updates and amendments in a timely manner to associated persons as they are adopted.*

Specifically, F&C will make a copy of this manual available to each registered representative and associated person through hard copy or electronic file. Updates and amendments to this manual will also be distributed via hard copy or electronic file. All associated persons are required to annually affirm in writing that he/she has read, understands and is willing to comply with F&C's Written Supervisory Procedures in the Annual Compliance Agreement.

1.18. Written Approval

Requirement. Conduct Rule 3110 requires each member to establish procedures for the review and endorsement by a registered principal in writing, on an internal record, of all transactions and all correspondence of its associated persons pertaining to the solicitation or execution of any securities transaction.

Policy. F&C will establish and maintain procedures for the review and endorsement by a registered principal in writing of all transactions and all correspondence of its associated persons pertaining to the solicitation or execution of any securities transaction.

Procedure. *F&C is a full service Broker/Dealer and as such, completes a number of different securities transactions for its customers. For products that are traded on an exchange, each transaction is reviewed and approved by a designated Branch Supervisors post execution. Should there be any discrepancies the Branch Supervisor will determine appropriate action, or if necessary, escalate the issue to CCO or his/her designee. The Branch Supervisor will evidence his/her review by initialing documentation associated with the transaction or evidencing his/her review on an electronic surveillance system or blotter. The purchase of any securities being done Direct to Fund (Mutual Funds, REITs, Variable Annuities) is reviewed by a Designated Principal for determination of suitability. The Designated Principal will evidence approval of the purchase by signing or initialing and dating the documentation associated to the purchase.*

All associated persons must submit initial hard copy contact correspondences to the Branch Supervisor for review and approval prior to dissemination to the public. Follow-up communications with institutions and accredited investors are reviewed after the fact with the Branch Supervisor addressing any issues it deems necessary with the registered representative involved in the communication or other appropriate person. However, when a new client transaction is initiated, language describing the transaction in a correspondence is generated and approved for use by the representative(s) to begin the process of contacting institutions or accredited investors. The representative can commence presentations of the transaction utilizing the approved language. Any major deviation from the approved language must be approved by the CCO prior to being sent or utilized.

As for general email correspondence with the public, approximately one hundred percent (100%) of incoming emails are filtered by review software with approximately eight percent (8%) of those e-mails being reviewed by a branch manager or compliance officer on a daily basis. Email correspondences are stored and maintained in electronic format by Smarsh, a third party vendor. F&C has established, through Smarsh, filtering systems to flag outgoing correspondence that is delivered to customers. This outgoing correspondence is reviewed by Branch Supervisors or Compliance. Compliance generally does ongoing reviews that include non-flagged emails as well. If a piece of correspondence needs to be escalated to the CCO, or his/her designee, it can be done through Smarsh or via email.

Initial correspondence with the public relating to investment banking or securities business of F&C sent from registered and/or associated persons must be submitted to the Branch Supervisor, signed and ready to be mailed. The original will be returned to the

registered representative for mailing, an electronic or physical copy of the correspondence will be maintained by the Branch Supervisor. In the event the Branch Supervisor determines the initial correspondence contains inaccurate, promissory or misleading information, the registered representative must edit and resubmit the correspondence for approval. Branch Supervisors may also escalate correspondence to the CCO, or designated Compliance Officer, if needed.

1.19. Submission of Membership Agreement

Requirement. Membership and Registration Rule 1014(d) states that if the Department grants an application, with or without restriction, the new member's approval for membership shall be contingent upon the filing of a written membership agreement, undertaking to:

- a. engage only in the business set forth in the business plan and the membership agreement;
- b. abide by any restriction specified in the Department's decision; and
- c. obtain the District's prior approval of a change in ownership, control or business operations pursuant to Rule 1017, including the removal or modification of a membership agreement restriction.

Additional financial or operating restrictions may apply or may be imposed to curtail or eliminate part of a firm's proposed business, if it was determined during the new member process that the capital, experience, supervisory system, controls, etc. of the pending new member were inadequate. Such additional restrictions must include the rationale for the decision on each issue. Any restriction imposed under this Rule shall remain in effect and bind the member and all successors to the ownership or control unless:

- removed or modified by the District under Rule 1017;
- removed or modified by a decision issued under Rule 1015 or 1016; or
- stayed by the National Adjudicatory Council, the FINRA Board, or the Commission

Policy. In order to comply with the terms of its Membership Agreement, F&C will

- a. engage only in the business set forth in the business plan and the membership agreement;
- b. abide by any restriction specified in the Department's decision; and
- c. obtain the District's prior approval of a change in ownership, control or business operations pursuant to Rule 1017, including the removal or modification of a membership agreement restriction.

Procedure. *The CCO will be responsible for ensuring F&C remains in compliance with its Membership Agreement at all times. Further, the CCO will ensure timely requests and/or*

notifications are made regarding proposed changes in the ownership and/or operations of F&C pursuant to Membership and Registration Rules.

1.20. Form BD, BR, and Contact System/ Designation of Executive Representative

Requirement. Form BD, BR, and Contact System/ Designation of Executive Representative CRD Forms including Form BD, the Uniform Application for Broker-dealers, must be current and accurate at all times, including the name of the member, address, state registration(s), memberships in exchanges or securities associations, business mix (only when the category accounts for or is expected to account for 1% or more of F&C's annual revenue from the securities or investment banking business), notification that certain books or records are maintained at other firms (e.g. clearing arrangement), branch office registration, reports of disciplinary actions brought by a government body or an SRO and names of officers, directors and owners (over 5% beneficial ownership). Although Form BD does not specify a time for filing, a general rule of thumb has developed that filing is required within 30 days. Failure to maintain an accurate Form BD is a violation of Bylaws, Article III, Section 1(d) in contravention of SEC Rule 15b3-1.

Pursuant to Article III, Section 3 of the Bylaws, member firms are required to designate to FINRA an Executive Representative, who is responsible for voting and acting for the member in all affairs.

Policy. F&C will keep all necessary forms, including but not limited to Form BD, Form BR, Form U4, Form U5 and FINRA's Member Firm Contact System current at all times. F&C will also designate an Executive Representative to FINRA through the Contact System.

Procedure. *F&C has designated its COO, as its Executive Representative to FINRA through FINRA's Contact System on the Gateway platform. The CCO will be responsible for ensuring F&C's Regulatory Forms and filings such as Form BD, BR and Contact Information are kept current and accurate at all times. The firm's CCO, COO, and FinOp will have entitlement privileges, with the COO acting as the Super Account Administrator, and each may update CRD information. F&C's CCO will be responsible for supervision of all electronic form filings.*

Specific Supervisory Responsibilities

Title: CCO
Location: Minneapolis, MN
Registrations: 4, 7, 24, 55, 63, 66, 87
Effective Date: July 16, 2014

RESPONSIBILITIES

- Monitor the activities of Branch Managers, review Branch Manager's transactions for complete and accurate information, and initial the relevant records as evidence of such review. Perform scheduled and random audits and reviews to determine that Branch Managers are actively reviewing registered persons associated with their Branch.
- Review and maintain F&C's overall supervisory system, conducting no less than annually, a review of all aspects of F&C's business.
- Maintain F&C's Written Supervisory Procedures by ensuring that timely amendments are made regarding changing rules and/or any changes in the supervisory system or supervisory personnel of F&C.
- Ensure amendments to the Written Supervisory Procedures are disseminated to all registered personnel.
- Ensure associated persons are assigned to an appropriately registered representative or principal responsible for supervision of the registered person.
- Review and ensure all supervisors are properly qualified.
- Conduct an annual compliance meeting with all representatives of F&C.
- Ensure compliance with F&C's Membership Agreement and current Business Plan.
- Ensure the Form BD for F&C is current at all times.

2. FINANCIAL AND OPERATIONAL ACTIVITIES

The Securities and Exchange Commission (“Commission”) has adopted net capital, customer protection, books and records, and notification rules for broker-dealers under the Securities Exchange Act of 1934. Given recent economic events in 2008 and the passage of the Dodd Frank Act, amendments to these rules are currently under consideration by the Commission.

2.1. Supervisory Responsibility

Requirement. F&C must designate a financial and operations principal whose duties will include:

- the final approval and responsibilities for the accuracy of financial reports submitted to any securities industry regulatory body;
- final preparation of such reports;
- supervision of individuals who assist in the preparation of such reports;
- supervision of and responsibility for individuals who are involved in the actual maintenance of F&C’s books and records from which such reports are derived;
- supervision and/or performance of F&C’s responsibilities under all financial responsibility rules;
- overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of F&C’s back office operations; and
- any other matter involving the financial and operational management of F&C.

Policy. F&C will designate a Financial and Operations Principal, properly qualified by examination and experience to carry out duties required by the Rules.

Procedure. *F&C has designated the CFO and Financial and Operations Principal (“FinOp”) to be responsible for the following duties:*

- *the final approval and responsibilities for the accuracy of financial reports submitted to any securities industry regulatory body;*
- *final preparation of such reports;*
- *supervision of individuals who assist in the preparation of such reports;*
- *supervision of and responsibility for individuals who are involved in the actual maintenance of F&C’s books and records from which such reports are derived;*
- *supervision and/or performance of F&C’s responsibilities under all financial responsibility rules;*
- *overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of F&C’s back office operations; and,*
- *any other matter involving the financial and operational management of F&C.*

The following sections provide detailed information regarding F&C’s financial and operational responsibilities.

2.2. Books and Records

SEC Rule 17a-3(a) requires every broker-dealer who transacts a business in securities shall make and keep current books and records relating to his business. SEC Rule 17a-4 specifies the length of time these records must be preserved. During the first two years the records must be kept in a "readily accessible place". F&C shall maintain those records necessary to reflect its business model.

Policy. F&C maintains a policy of following the requirements set forth in SEC Rule 17a-3 and 17a-4. At the discretion of the CCO and upon the advice of Counsel, certain records may be kept beyond the minimum holding period mandated by FINRA and the SEC.

Procedure. The CCO will be responsible for ensuring all required books and records are prepared, are current, and are maintained according to holding requirements of SEC Rules 17a-3 and 17a-4.

2.3. Net Capital Rule

The Net Capital Rule requires a broker-dealer to maintain minimum net capital at all times and provides a standard computation method or an alternative computation standard of computing net capital. The minimum amount of capital that is required is based upon the type of business being conducted and the handling of funds and securities. The following is a summary of the net capital requirements under SEC Rule 15c3-1.

2.3.1 Minimum Net Capital Requirement

Type of Broker-dealer Requirements	Minimum	Dollar
Mutual fund dealers subscription basis ⁽¹⁾		\$5,000
Mutual fund dealers wire order basis ⁽²⁾		\$25,000
Introducing firms not receiving funds/securities ⁽³⁾		\$5,000
Introducing firms receiving securities ⁽⁴⁾		\$50,000
Firms carrying customer accounts under (k)(2)(i) exemption from SEC Rule 15c3-3 ⁽⁵⁾		\$100,000
Dealers ⁽⁶⁾		\$100,000
Market Makers ⁽⁷⁾		\$100,000
Brokers' brokers ⁽⁸⁾		\$150,000
Firms carrying customer accounts basic (AI) method ⁽⁹⁾		\$250,000
Firms electing the alternative standard ⁽¹⁰⁾		\$250,000
Other brokers or dealers ⁽¹¹⁾		\$5,000
15C Interdealer ⁽¹²⁾		\$1,000,000

Whenever a broker-dealer engages in more than one of the above activities, the highest requirement for any of those activities is the dollar requirement.

Ratio requirements and other requirements for futures commission merchants and market makers may dictate requirements higher than the minimum dollar requirement.

- (1) Brokers or dealers transacting a business in redeemable shares of registered investment companies and certain other share accounts on an application method basis, and do not otherwise receive or hold funds or securities.
- (2) Brokers or dealers transacting a business in redeemable shares of registered investment companies and certain other share accounts on a wire order basis.
- (3) Firms that introduce accounts on a fully disclosed basis to another broker-dealer and do not receive funds or securities.
- (4) Firms that introduce accounts on a fully disclosed basis to another broker-dealer and receive but do not hold, customer or other broker-dealer securities and do not receive funds.
- (5) Firms that carry customer accounts, receive but do not hold customer funds or securities, and operate under the paragraph (k)(2)(i) exemption of Rule 15c3-3.
- (6) Brokers or dealers that trade solely for their own accounts, endorse or write options, or effect more than ten transactions for their investment account in any one calendar year.
- (7) A broker-dealer engaged in activities as a market maker the greater of \$100,000.00 or 6 2/3% of AI or \$2,500 per security for securities with a market value greater than \$5 per share, and \$1,000 per security for securities with a market value of \$5 or less with a maximum requirement of \$1 million.
- (8) Firms that engage in a municipal securities business exclusively as an undisclosed agent in the purchase or sale of municipal securities for registered brokers or dealers or registered municipal securities dealer, who has no investors and who does not have any municipal securities in its proprietary or other accounts.
- (9) Firms that carry customer accounts or broker-dealer accounts and receive or hold funds or securities for those persons the greater of \$250,000 or 6 2/3% of AI.
- (10) Firms that carry customer accounts or broker-dealer accounts and receive or hold funds or securities for those persons the greater of \$250,000 or 2% of Rule 15c3-3 Reserve Formula debits.
- (11) Firms that deal only in Direct Participation Programs (DPPs) or firms that do not take customer orders, hold customer funds or securities, or execute customer trades, because of the nature of their activities (e.g., mergers and acquisitions).
- (12) Firms that act exclusively as a government securities interdealer may, with prior approval of the Treasury, elect to be subject to the net capital requirements of SEC Rule 15c3-1

A broker-dealer operating under the \$5,000 minimum net capital is restricted to effecting an occasional transaction for its own account (An occasional transaction is considered no more than 10 transactions in any one calendar year). Transactions in money market

instruments are excluded from the 10-transaction limitation (A transaction is either a purchase or a sale). If the broker-dealer has a trading account or is a market maker the minimum net capital is \$100,000. A broker-dealer that sells direct participation programs on a best-efforts basis and, in accordance with SEC Rule 15c2-4, deposits investors' funds in a trust or agency account rather than an escrow account with a bank that has agreed in writing to hold the funds until the future event or contingency is met must maintain a minimum net capital of \$250,000.

2.3.2 Limits to the Amounts of Aggregate Indebtedness

Notwithstanding a minimum dollar amount of net capital, a broker-dealer using the basic net capital method may not permit its aggregate indebtedness to all other persons to exceed 15 times net capital. For the initial 12-month period after commencing business a broker-dealer shall not permit aggregate indebtedness to exceed 8 times net capital. The rule gives broker-dealers the option of charging net capital by an amount equal to 4% of any indebtedness collateralized by exempted securities or municipal securities in lieu of including the amount of such indebtedness in the computation of aggregate indebtedness under the rule.

2.3.3 Debt to Equity Requirements

A broker-dealer must maintain equity equal to at least 30% of its debt-equity total. The total outstanding principal amount of its satisfactory debt subordination agreements cannot exceed 70% of the debt-equity total for a period in excess of 90 days. On the 91st day, it is a net capital violation and F&C should cease doing a business. The debt-equity total shall have the following meaning:

- a. For a corporation, the sum of approved subordination, par or stated value of capital stock, paid in capital in excess or par, retained earnings, unrealized profits and losses and other capital accounts.
- b. For a partnership, the sum of its outstanding principal amount of approved subordination, capital accounts of partners and unrealized profits or losses. The term equity capital does not include partners' securities accounts and balances in limited partners' capital accounts in excess of their stated capital contributions.
- c. For a proprietorship, the sum of its outstanding principal amount of approved subordination, capital accounts of the sole proprietorship and unrealized profits and losses.

2.3.4 Limitations on the Withdrawal of Equity Capital

The limitations on the withdrawal of equity capital apply to the outright payments of cash. These payments can be in the form of dividends to stockholders, distributions to partners or proprietors through drawing accounts, or similar distributions, and also to payments of any unsecured advances or loans to a stockholder, partner, proprietor or employee.

Subparagraph (e) of the capital rule precludes a broker-dealer from making any equity capital withdrawals if after the effect of such payments, and the payment obligations on

subordinations that are scheduled to mature within six months following the payments, would cause either of the following conditions to occur:

- a. The ratio of aggregate indebtedness to net capital would exceed 10:1.
- b. Net capital would be less than 120% of the minimum net capital requirements.
- c. Net capital would be less than 5% of the aggregate debit items computed in accordance with Rule 15c3-3, if the broker-dealer computes net capital under the alternative standard of paragraph (a)(1)(ii) of the capital rule.
- d. The debit/equity ratio is greater than 70%.

The payment of required taxes or reasonable compensation to officers or partners is not precluded in the withdrawal restrictions. In the event the broker-dealer consolidates in its net capital computation the assets and liabilities of a subsidiary or affiliate, then the limitations on the withdrawal of equity capital also apply to the withdrawals by the subsidiary or affiliate being consolidated (SEC Rule 15c3-1(e)).

In addition, the withdrawal, along with other withdrawals, on a net basis, during the preceding 30 calendar days, exceed the greater of 30% of F&C's excess net capital or \$500,000, firm must have evidence of having given notification to the SEC and its DEA at least 2 business days prior to the withdrawal. If the withdrawals, on a net basis, during the prior 30 calendar days, exceed the greater of 20% of F&C's excess net capital or \$500,000, F&C must have evidence of having given written notification to the SEC and its DEA within 2 business days after such withdrawal. If the withdrawal caused F&C's net capital to be less than 25% of proprietary "haircuts", prior approval from the SEC must have been obtained.

2.3.5 Notification Provisions for Brokers and Dealers

SEC Rule 17a-11 requires each member to immediately notify FINRA if, after giving effect to all outstanding payments or payment obligations from subordination agreements, which are due or mature within the preceding six months without reference to any projected profit or loss of the broker-dealer, one of the following events occur under Rule 15c3-1:

Straight-Way Computing - The aggregate indebtedness would exceed 1200% of its net capital or its net capital would be less than 120% of the minimum amount required.

Alternative Computing - Its net capital would be less than 5% of aggregate debit items computed in accordance with Rule 15c3-3.

Futures Commission Merchant - Its net capital would be less than the greater of 6% of the funds required to be segregated pursuant to the Commodity Exchange Act (less the market value of commodity options purchased by options investors on or subject to the rules of a contract market, each such deduction not to exceed the amount of funds in the option customer's account) or less than 120% of the minimum dollar amount required by paragraph (f) of Rule 15c3-1.

In addition, SEC Rule 17a-11 requires F&C to notify FINRA and the SEC in the event it fails to maintain current books and records; or its independent accountant finds a material inadequacy.

Policy. F&C is subject to a minimum net capital requirement of the greater of \$250,000 or 6 2/3% of Aggregate Indebtedness. F&C's FinOp will be responsible for ensuring the Member remains in net capital compliance at all times. Further, he/she will ensure the Member's aggregate indebtedness remains within acceptable levels, the Member's debt to equity ratio is below 70% (if applicable), and the member complies with the requirements for any withdrawal of equity capital. In the unlikely event F&C's net capital falls below \$250,000, its aggregate indebtedness exceeds 1500% or any of the other events requiring notification under SEC Rule 17a-11, the FinOp will ensure proper early warning notification is made to FINRA and the SEC. Should the Member's net capital fall below the minimum requirement, the FinOp is responsible to advise the CCO immediately; the CCO will be responsible for ensuring the member ceases conducting business until such time as the net capital deficiency is cured, as well as ensuring proper notifications are made to regulators.

2.4. Customer Protection Rule

SEC Rule 15c3-3, Customer Protection - Reserves and Custody of Securities, was designed to provide regulatory safeguards over customer funds and securities held by broker-dealers. The rule sets forth the requirements to reduce to possession and control the fully-paid-for securities of its customers and to segregate free credit balances.

There are various exemptions under paragraph (k) of SEC Rule 15c3-3 available to broker-dealers to avoid being subject to the full provisions of the rule:

(k)(1)(i) His dealer transactions (as principal for his own account) are limited to the purchase, sale, and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company; except that a broker-dealer transacting business as a sole proprietor may also effect occasional transactions in other securities for his own account with or through another registered broker-dealer;

(k)(1)(ii) His transactions as broker (agent) are limited to; (a) the sale and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company; (b) the solicitation of share accounts for savings and loan associations insured by an instrumentality of the United States; and (c) the sale of securities for the account of a customer to obtain funds for immediate reinvestment in redeemable securities of registered investment companies; and

(k)(1)(iii) He promptly transmits all funds and delivers all securities received in connection with his activities as a broker-dealer, and does not otherwise hold funds or securities for, or owe money or securities to, investors.

(k)(2)(i) The broker-dealer carries no margin accounts, promptly transmits all customer funds and delivers all securities received in connection with his activities

as a broker-dealer, does not otherwise hold funds or securities for, or owe money or securities to, customers and effectuates all financial transactions between the broker-dealer and his customers through one or more bank accounts, each to be designated as "Special Account for the Exclusive Benefit of Investors of (name of the broker-dealer)";

(k)(2)(ii) The broker-dealer, who, as an introducing broker-dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker-dealer, and who promptly transmits all customer funds and securities to the clearing broker-dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of 17a-3 and 17a-4 of this chapter, as are customarily made and kept by a clearing broker-dealer.

(k)(3) The broker-dealer may apply in writing to the SEC for a special exemption. The Commission may exempt such broker-dealer from the provisions of this section, either unconditionally or on specified terms and conditions, if the Commission finds that the broker-dealer has established safeguards for the protection of funds and securities of investors comparable with those provided for by this section and that it is not necessary in the public interest or for the protection of investors to subject the particular broker-dealer to the provisions of this section.

These exemptions are based on the type of business conducted. A firm may introduce its customers' accounts to a clearing firm on a fully disclosed basis pursuant to the (k)(2)(i) exemption, sell mutual funds pursuant to the (k)(1) exemption, or distribute direct participation programs subject to the (k)(2)(i) exemption, or any combination thereof. If a firm operates in a manner which subjects it to more than one exemption, F&C will normally be considered to be operating pursuant to the (k)(2)(ii) exemption, i.e. if a firm, who, as an introducing broker-dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker-dealer, and who promptly transmits all customer funds and securities to the clearing broker-dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of SEC Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker-dealer.

FINRA Rule 3140 requires that a member obtain the prior written approval of the Association before it can change its method of doing business in a manner that would change its exempt status under the rule.

Policy. F&C engages in the business of acting as a dealer, market maker, investment banker and providing brokerage services with respect to equities and other securities. F&C does not carry securities accounts for customers or perform custodial functions for customers and accordingly, is exempt from SEC Rule 15c3-3. All securities transactions are cleared through a clearing broker on a fully-disclosed basis. F&C's current clearing broker requires that F&C maintain a minimum cash balance of \$600,000 in cash and securities to collateralize certain transactions.

Procedure. F&C's FinOp is responsible for regularly calculating its net capital position and ensuring that F&C maintains its net capital above minimum levels as well as the minimum cash position required by its clearing firm.

2.5. Safekeeping and Segregation of Securities

Requirement. Members subject to the full provisions of SEC Rule 15c3-3 must not make improper use of customer's securities or funds and must adhere to it with respect to obtaining possession and control of securities and the maintenance of appropriate cash reserves.

Policy. F&C is not subject to the full provisions of SEC Rule 15c3-3.

Procedure. *F&C will not establish a Special Reserve Account pursuant to SEC Rule 15c3-3(f); F&C is exempt from the full provisions of Rule 15c3-3 and will not hold funds or securities in connection with its activities as a broker-dealer, and does not otherwise or owe money or securities to customers; and as such will not maintain accounts on their behalf.*

2.6. Reconciliation of Books and Records

Policy. A reconciliation of all bank and/or clearing accounts is essential in order for F&C to determine that the money balances and securities positions are in agreement in every respect. It is extremely important that reconciliation is not only frequent but also current.

Procedure. *The FINOP is responsible for establishing procedures for the periodic reconciliation of bank statements, clearing and depository accounts, and other accounting and business records. Records of bank accounts and other reconciled accounts will be maintained in accordance with regulatory requirements. F&C's FinOp will prepare financial records at least quarterly for review by the CCO or on an as-needed basis. Such review shall include reconciliation of F&C's bank statements, monthly balance sheet and income statements, the quarterly FOCUS report and other accounting and business records. All financial records will be maintained in accordance with regulatory requirements by F&C*

2.7. Extension of Credit to Customers

Requirement. The Board of Governors of the Federal Reserve Board has issued Regulation T, which pertains to the extension and maintenance of credit to purchase or carry securities. A violation of Regulation T is cited as a violation of FINRA Rule 2110 in contravention of Regulation T. FINRA Rule 2520 sets forth additional requirements pertaining to margin accounts carried by members and there are other federal regulations that apply when a broker-dealer extends credit to customers to finance securities transactions.

Policy. F&C will abide by Regulation T and associated FINRA Rules 2110 and 2520 as they pertain to extension and maintenance of credit to purchase or carry securities as well as the additional requirements pertaining to margin accounts.

2.8. Margin Accounts and Short Accounts

Margin Agreement

The customer's original, faxed, or scanned signed margin agreement must be received before an account begins trading on margin, or begins selling stock short.

Initial Margin Requirements

- *Initial margin requirements, as mandated by Reg. T, are 50% of the total margin or short transaction, with a minimum equity requirement of \$2,000.00.*
- *Initial Reg. T calls are due within two business days of settlement date (S+2).*
- *Same day substitutions and/or a transfer of marginable securities may also satisfy initial margin requirements.*
- *F&C reserves the right to increase the initial margin requirements at its discretion when conditions warrant such action.*

Margin Account Maintenance Requirements

- *If the equity falls below 40%, the account is "flagged" for closer review.*
- *If the equity falls below 30%, F&C will issue a maintenance call in an amount that will bring the account up to at least 35% equity.*
- *Maintenance calls are due one week (five business days) from the date of issuance. Calls may be satisfied with (i) a deposit of cash in the amount of the call; (ii) the sale of enough securities in the account to generate proceeds equal to 300% of the amount of the call; (iii) the deposit of marginable stock into the*
- *account with a market value equal to at least 200% of the amount of the call; or (iv) a combination of the first three options.*
- *If the maintenance call is not satisfied in a timely manner, F&C has the right under the Customer Margin Agreement to sell any or all of the securities in the account to generate proceeds sufficient to satisfy the maintenance call.*
- *F&C reserves the right to require higher equity percentages, larger maintenance calls, and shorter deadlines for meeting calls if in F&C's judgment such action is necessary to protect F&C. Among the factors F&C*

will consider in instituting higher requirements are (i) concentration of positions; (ii) quality of positions; (iii) liquidity of positions; and (iv) customer's credit worthiness.

Short Account Maintenance Requirements

- *All short positions are monitored daily for compliance with these requirements.*
- *Each short account must maintain at least 35% equity.*
- *Short accounts are dependent upon the availability of the security in which the short position is held. If F&C loses the borrowed security (i.e., if the located position is closed), the customer is required to cover the short position immediately.*

2.9. Employee Accounts

Extensions are not permitted in employee and employee's spousal accounts, except under unusual circumstances, and with the Branch Manager's approval and notification of Compliance.

2.9.1 Truth-in-Lending Requirements

Upon opening a margin account, the customer will be provided a written statement explaining the operation of a margin account and the calculation of interest charges on debit balances. It is the FINOP's responsibility to establish procedures for providing the required disclosure.

2.9.2 Equal Credit Opportunity Act Requirements

F&C will not discriminate in the extension of credit to customers. Where credit is denied, F&C will provide information to the credit applicant (if requested) in accordance with the provisions of the Equal Credit Opportunity Act.

2.9.3 Arranging Credit Away from Firm

RRs are not permitted to assist a customer in making credit arrangements to purchase securities outside F&C.

2.9.4 Suitability of Margin

Margin accounts may involve more risk than cash accounts, depending on a number of factors, including leverage used and types of transactions. The RR is responsible for determining the suitability of margin trading in a customer's account including understanding the customer's investment objectives and financial profile.

2.9.5 Credit On Restricted Securities

Extension of credit or margin transactions in securities for corporate insiders requires the prior approval of the FINOP. If a customer who holds restricted securities wishes to deposit those securities in a margin account, Operations should be notified to determine the marginability of the securities.

2.9.6 Company Cashless Stock Option Exercises

These are usually employee stock options that an employee of a publicly-traded company receives as compensation and/or bonus from that employer.

2.9.6.1 Cashless Stock Option Procedures

- *RR must verify that the client has stock options available, are registered securities under the Investment Securities Act of 1934, and can be exercised at this time.*

- *Once verified, RR must forward the following documents to the employee who wishes to exercise the stock options (all five documents appear as exhibits at the end of this Chapter):*
 - *Margin Agreement*
 - *W-9*
 - *Seller Representation Letter to Issuer*
 - *Seller Letter of Instruction to F&C*
 - *Stock Power*

- *Operations Manager must receive the following:*
 - *Written verification from the Company that these stock options are available to be exercised and are registered under the Investment Securities Act of 1934 (ii) Contact Person at the Company and Phone Number (iii) F&C's form memo for exercise of cashless stock options (a copy of which appears as an exhibit at the end of this Chapter), and all five original signed documents described in the prior bullet point*

- *Operations Manager will notify RR that the stock can be sold.*

2.10. Fees Charged to Customers

Requirement. F&C is obligated to disclose any service charges to customers at the time the account is opened and to existing customers 30 days prior to changes or additions to existing service charges. In general, fees and charges are required to be reasonable and not unfairly discriminatory between customers. ACATS charges should be related to actual costs and should not be charged for involuntary transfers.

Policy. F&C will disclose service charges to customers at the time an account is opened and to existing customers 30 days before changes or additions to existing service charges. The FINOP is responsible for establishing procedures to ensure customers receive such notification. In general, fees and charges will be reasonable and not unfairly discriminatory between customers. Also, ACATS charges should be related to actual cost, and should not be charged for involuntary transfers (such as where F&C has advised a customer to move his/her account to another firm). If a fee or commission will be charged to redeem mutual funds and funds could be sold through the mutual fund itself without cost, customers will also be notified that they could otherwise redeem their funds without cost by liquidating directly through the mutual fund.

Procedure. *The CCO will ensure that proper procedures are in place to provide that all new customers are advised of any and all fees and charges at the time the account is opened.*

2.11. Financial Reporting

FOCUS Reports

Requirement. The FOCUS Report is a report on the finances and operations of broker-dealers required to be filed pursuant to SEC Rule 17a-5. Part IIA is to be filed quarterly by firms not self-clearing, not carrying customer accounts, and firms conducting a limited type of business. Schedule I must be filed annually.

Effective February 1, 1996, all members, except members subject to the requirements of SEC Rule 15c3-3 or members engaged in market making activity for whom the Plan will be effective for the month ending July 31, 1996, will file FOCUS reports within the following guidelines:

Every member that is subject to the requirements of subparagraph (e) of SEC Rule 15c3-3 or that conducts a business in accordance with subparagraph (k)(2)(i) of Rule 15c3-3, or that is subject to subparagraph (a)(2)(i) through (a)(2)(iii) of SEC Rule 15c3-1 shall file monthly a FOCUS Part II Report. The monthly filing for those months that are not calendar quarters shall contain only the balance sheet, net capital computation, reserve formula computation, the net monthly profit or loss, and certain financial and operational data. The filing made at each calendar quarter end shall contain a Statement of Financial Condition, a Statement of Income, a Statement of Cash Flows, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, Statement of Changes in Liabilities Subordinated to Claims of General Creditors, a Computation of Net Capital, a Computation for Determination of the Reserve Requirements, and Information Relating to the Possession or Control Requirements.

Every member that conducts a business in accordance with subparagraph (k)(1)(i) through (iii), (k)(2)(ii), or (k)(3) of SEC Rule 15c3-3 and is not subject to subparagraphs (a)(2)(i) through (a)(2)(iii) of SEC Rule 15c3-1 shall file quarterly a FOCUS Part IIA Report. The filing made at each calendar quarter end shall contain a Statement of Financial Condition, a Statement of Income, a Statement of Cash Flows, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, Statement of Changes in Liabilities Subordinated to Claims of General Creditors, a Computation of Net Capital.

Every member that conducts a business in accordance with subparagraphs (a)(6), (a)(7), and (a)(8) of SEC Rule 15c3-1 shall file quarterly a FOCUS Part IIA Report. The filing made at each calendar quarter end shall contain a Statement of Financial Condition, a Statement of Income, a Statement of Cash Flows, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, Statement of Changes in Liabilities Subordinated to Claims of General Creditors, a Computation of Net Capital.

Each FOCUS Part II/IIA shall be filed on or before the 17th business day of the next month following the end of the subject-reporting period.

Every member, other than those not designated to the Association pursuant to SEC Rule 17d-1, which is subject to the requirements of paragraph (d) of SEC Rule 17a-5, shall file an additional Part II or Part IIA of Form X-17A-5 ("Fifth FOCUS"), as applicable, with the Association within seventeen (17) business days after the date selected for the annual audit whenever said date is other than a calendar quarter.

Policy. F&C's Super Account Administrator ("SAA") is responsible for ensuring that the FinOp has the necessary entitlements to file all required reports through the Gateway system.

Procedure. Calculation and Reporting of Net Capital

F&C is required to file a FOCUS IIA within 17 business days after the end of each calendar quarter. F&C's FinOp will be responsible for assuring the timely completion and submission of the quarterly FOCUS IIA report. Further, the FinOp will ensure that complete financial statements including Net Capital and Aggregate Indebtedness computations are completed each month.

2.12. Annual Audit

Requirement. Every broker-dealer is subject to Rule 17a-5 and is required to file annually, on a calendar or fiscal year basis, an audited report to its Designated Examining Authority. Such reports are to be as of the same fixed or determinable date each year unless a change is approved by the member's designated examining authority.

The report must be filed within 60 days of the date when the financial condition is reported unless an extension has been granted. The annual report is to be filed with the SEC's principal office in Washington, DC, the regional office of the SEC for the region in which F&C's principal place of business is located, and FINRA's Executive Office (Regulatory Systems).

Pursuant to NASD Rule 3170, FINRA will, effective November 8, 2011, require member firms for which it is the DEA to submit annual audit reports in electronic form. Firms are required to submit their annual audit report in electronic form via FINRA's Firm Gateway. The required format of the filing is Portable Document Format (PDF). The electronic submission screen on F&C Gateway will include a list of documents that, if applicable, are required in the audit filing. In addition to the annual audit report, SEA Rule 17a-5 requires that an oath and affirmation page be completed and submitted electronically with the annual audit, and must also maintain the oath and affirmation page with an original manual signature (including raised notary seal, where applicable) as part of F&C's books and records under SEA Rule 17a-4(a), along with the accompanying annual audit report in hard copy form. The Oath and Affirmation states that, to the best knowledge and belief of the person making the oath or affirmation, (i) the financial statements and schedules are true and correct and (ii) neither the broker or dealer, nor any partner, officer, or director, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

Policy. F&C's FinOp will be responsible for assuring the timely completion and submission of the annual audited reports electronically via the Gateway system as well as 1) two (2) hard copies to the SEC's principal office in Washington DC, one (1) copy to F&C's SEC Regional office, 3) one (1) copy to FINRA's principal offices in Rockville, MD, and 4) one (1) copy to any state in which F&C is registered where filing is required.

Procedure. *The FinOp will execute the oath or affirmation before a duly authorized officer of the corporation and submit the oath and affirmation electronically with the annual audit, and maintain the oath and affirmation page with an original manual signature (including raised notary seal, where applicable) as part of F&C's books and records under SEA Rule 17a-4(a), along with the accompanying annual audit report in hard copy form.*

2.13. Rule 17a-5(f)(4) – Replacement of Accountant.

Requirement. When a broker-dealer changes auditors, it is required to notify the SEC and its designated examining authority together with an explanation of the reasons for such change within 15 business days both electronically via the Gateway system and by hard copy.

Policy. In the event F&C finds it necessary to change its fiscal year it must file a request

for such change, in writing, with its designated examining authority. The notice shall be filed with its FINRA District Office, and must contain a detailed explanation of the reasons for the change, and indicate whether the filing of the annual audit report will be delayed as a result thereof.

Procedure. *In coordination with the CCO, the FinOp will file the required requests and/or notifications in the event F&C finds it necessary to change auditors or its fiscal year end via the Gateway system and by hard copy as required.*

2.14. Fully-Disclosed Arrangements

Requirement. FINRA Rule 3230 describes the minimum requirements of clearing agreements. If the member has entered into a clearing or carrying agreement, such agreement shall specify the respective functions and responsibilities of each party to the agreement with respect to various matters.

Policy. F&C's clearing agreement shall specify the respective functions and responsibilities of each party to the agreement with respect to the following matters:

- opening, approving and monitoring customer accounts;
- extension of credit;
- maintenance of books and records;
- receipt and delivery of funds and securities;
- safeguarding of funds and securities;
- confirmations and statements;
- acceptance of orders and execution of transactions;
- whether investors are investors of the clearing member; and
- the requirement to provide customer notification under FINRA Rule 3230.

F&C must also report any amendments to its clearing arrangements or entering into of new clearing arrangement to FINRA.

Procedure. *F&C has entered into a fully disclosed clearing arrangement with RBC Correspondent Services ("RBC") which will carry all customer accounts. The CCO is responsible for ensuring that the clearing agreement with its clearing firm clearly specifies the respective functions and responsibilities of each party to the agreement with respect to the above-referenced matters.*

Specific Supervisory Responsibilities

Title: Financial & Operations Principal
Location: Minneapolis, MN
Registrations: Series 4, 7, 24, 27, 55, 63, 65, 87
Effective Date: April 4, 2002

RESPONSIBILITIES

- Review F&C's financial books and records to ensure their accurate and timely preparation and maintenance and that F&C is in compliance with net capital rules.
- Ensure electronic and hard copy filings of all required FOCUS reports, annual audited financial statements and all other required financial notifications are made properly and timely.
- Ensure the maintenance of all required books and records, conducting adequate reviews to verify such maintenance.
- Upon the occurrence of any of the specified events under SEC Rule 17a-11, ensure proper notification is filed with the SEC and FINRA.
- Monitor for compliance with F&C's (k)(2)(i) exemption from SEC Rule 15c3-3.
- Contact federal law enforcement authorities when required.
- Terminate all correspondent banking relationships with foreign banks when directed to do by the Treasury or US Attorney General within 10 days of the date of the request.
- Maintain all books and records required by the FINRA and SEC rules, for the necessary time period, in a separate location from other broker-dealer books and records.
- Calculate and remit F&C's annual fees and assessments and maintain documentation in F&C's files.

3. ANTI-MONEY LAUNDERING

Anti-Money Laundering Compliance Program (Patriot Act of 2001, Money Laundering Abatement Act, Bank Secrecy Act - SEC Rule 17a-8)

Requirement. “On October 26, 2001, President Bush signed the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, referred to as the Patriot Act. Title III of the Patriot Act, referred to as the Money Laundering Abatement Act, imposes numerous obligations on Broker/Dealers under new Anti-Money Laundering (AML) provisions and amendments to the existing Bank Secrecy Act (BSA) requirements.”

All financial institutions, including Broker/Dealers and Investment Companies, are required to establish, maintain, and enforce policies and procedures designed to prevent money laundering.

Federal law prohibits financial institutions from knowingly engaging in or assisting with money laundering activities. This concept of knowledge is extremely broad, and a Broker/ Dealer can be guilty of money laundering if it intentionally ignores certain suspicious activities. In addition to deterring money laundering activities, financial institutions also have a duty to report suspicious activities to the federal government.

Policy. It is the policy of F&C to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses. Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal the origin or intended use of the funds, which will later be used for criminal purposes.

As noted in the NASD Notice To Members (NTM) 02-21 Executive Summary:

Engaging in or assisting others engaged in money laundering activities is prohibited and contrary to the policy of F&C and Company (F&C).

The penalties for money laundering can be considerable, including civil and criminal sanctions. This policy applies to all employees of F&C. F&C engages in a general and municipal securities business on a fully disclosed basis, through NFS. Customer checks are forwarded to NFS or the product sponsor. Wires are never accepted into a F&C bank account for the purpose of investment payment. Instead, customers would wire funds directly to NFS or the sponsor. Except for a handful of foreign accounts, all customers are US citizens or permanent residents. A limited number of US clients only conduct application-way business directly through F&C.

Consequently, many of the AML regulatory provisions and requirements, regarding foreign correspondents and shell banks are not applicable. However, FINRA has required all firms to have procedures covering every area, even if they are not applicable, sections in this document cover these areas. Should the nature of F&C's business change, the AMLCO is responsible for revising this document to address the changes.

F&C's AML policies, procedures and internal controls are designed to ensure compliance with all applicable Bank Secrecy Act (BSA) regulations and FINRA rules and will be reviewed and updated on a regular basis to ensure appropriate policies, procedures and internal controls are in place to account for both changes in regulations and changes in F&C's business.

Rules: FINRA Rule 3310, 31 C.F.R. § 103.120(c)

3.1. AML Compliance Officer Designation and Duties

Procedure. F&C will designate an Anti-Money Laundering Program Compliance Officer ("AMLCO"), with full responsibility for F&C's AML program. The AMLCO will be qualified by experience, knowledge and training, including several years of experience in the business engaged by previous FINRA member firms. The duties of the AML Compliance Officer will include monitoring F&C's compliance with AML obligations, overseeing communication and training for employees, and overall compliance by F&C. The AML Compliance Officer will also ensure that proper AML records are kept. When warranted, the AML Compliance Officer will ensure Suspicious Activity Reports (SAR-SFs) are filed with the Financial Crimes Enforcement Network (FinCEN) when appropriate. The AML Compliance Officer is vested with full responsibility and authority to enforce F&C's AML program.

F&C will provide FINRA with contact information for the AML Compliance Officer, including name, title, mailing address, e-mail address, telephone number and facsimile number. F&C will promptly notify FINRA of any change to this information.

Rules: FINRA Rule 3310.

3.2. Giving AML Information to Federal Law Enforcement Agencies and Other Financial Institutions

Procedure.

a) *FinCEN Requests Under PATRIOT Act Section 314(a)*

F&C will respond to a Financial Crimes Enforcement Network (FinCEN) request about transactions (a 314(a) Request) by immediately searching F&C's records, at F&C's head office or at one of F&C's branches operating in the United States, to determine whether F&C engaged in any transaction with, each individual, entity, or organization named in FinCEN's request. Upon receiving an information request, F&C will designate one person to be the point of contact regarding the request and to receive similar requests in the future. Unless otherwise stated in FinCEN's request, F&C will check and verify if a named subject participated in client transactions during the preceding six months. If F&C finds a match, F&C will report it to FinCEN via FinCEN's Web-based 314(a) Secure Information Sharing System within 14 days or within the time requested by FinCEN in the request. This form can be sent to FinCEN by electronic mail at sys314a@fincen.treas.gov, (*or if you don't have e-mail,*) by facsimile transmission to 703-905-3660. If the search parameters differ from those mentioned above (for example, if FinCEN requests longer periods of time or limits the search to a geographic location), F&C would limit F&C's search accordingly. F&C will maintain documentation that F&C has performed the required search by either printing a search self-verification document from FinCEN's 314(a) Secure Information Sharing System confirming that F&C has searched the 314(a) subject information against F&C's records or will maintain a log of F&C's FinCEN searches.

If F&C searches F&C's records and does not uncover a matching account or transaction, then F&C will not reply to a 314(a) request.

F&C will not disclose the fact that FinCEN has requested or obtained information from F&C, except to the extent necessary to comply with the information request. F&C will maintain procedures to protect the security and confidentiality of requests from FinCEN, such as those established to satisfy the requirements of Section 501 of the Gramm-Leach-Bliley Act.

F&C will direct any questions F&C has about the request to the requesting Federal law enforcement agency as designated in the 314(a) request.

Unless otherwise stated in the 314(a) request, F&C will not be required to treat the information request as continuing in nature, and F&C will not be required to treat the 314(a) request as a government provided list of suspected terrorists for purposes of the investor identification and verification requirements. F&C will not use information provided to FinCEN for any purpose other than (1) to report to FinCEN as required under Section 314 of the PATRIOT Act; (2) to introduce the investor to future client transactions; or (3) to assist F&C in complying with any requirement of Section 314 of the PATRIOT Act.

Rules: 31 C.F.R. § 103.100.

Resources: FinCEN press release (2/6/03) and (2/12/03); NASD Member Alert (2/14/03); FinCEN's 314(a) Fact Sheet (11/18/08) or by contacting FinCEN at (800) 949-2732.

b) *National Security Letters*

Requirement. National Security Letters (NSLs) are highly confidential. No broker-dealer, officer, employee or agent of the broker-dealer can disclose to any person that a government authority or the FBI has sought or obtained access to records. Firms that receive NSLs must have policies and procedures in place for processing and maintaining the confidentiality of NSLs.

Policy. National Security Letters will be handled by F&C's AMLCO, who will not disclose to anyone other than the CCO that a government authority or the FBI has sought or obtained access to records.

Procedure: *No one other than the AMLCO is permitted to open NSLs. Furthermore, the AMLCO is not permitted to disclose the contents of a NSL to anyone other than F&C's CCO.*

Resource: [FinCEN SAR Activity Review, Trends, Tips & Issues, Issue 8 \(National Security Letters and Suspicious Activity Reporting\) \(4/2005\).](#)

c) *Grand Jury Subpoenas*

Requirement. Grand juries may issue subpoenas as part of their investigative proceedings. The receipt of a grand jury subpoena does not in itself require the filing of a Suspicious Activity Report (SAR-SF). However, broker-dealers should conduct a risk

assessment of the customer who is the subject of the grand jury subpoena, as well as review the customer's account activity. If suspicious activity is uncovered during this review, broker-dealers should consider elevating the risk profile of the customer and file a SAR-SF in accordance with the SAR-SF filing requirements. Grand jury proceedings are confidential, and a broker-dealer that receives a subpoena is prohibited from directly or indirectly notifying the person who is the subject of the investigation about the existence of the grand jury subpoena, its contents or the information used to reply to it. If you file a SAR-SF after receiving a grand jury subpoena, the SAR-SF should not contain any reference to the receipt or existence of it. The SAR-SF should provide detailed information about the facts and circumstances of the detected suspicious activity.

Policy. F&C will conduct a risk assessment of customers who are the subject of a grand jury subpoena received by the F&C. Depending on the outcome of the assessment, F&C may elevate the risk profile of the customer and/or file a SAR-SF. F&C is prohibited from notifying the person directly or indirectly who is the subject of the subpoena regarding its existence and will not reference the subpoena if a SAR-SF is filed.

Procedure. F&C understands that the receipt of a grand jury subpoena concerning a customer does not in itself require that F&C file a Suspicious Activity Report (SAR-SF). When F&C receives a grand jury subpoena, F&C will conduct a risk assessment of the investor subject to the subpoena. If F&C uncovers suspicious activity during F&C's risk assessment and review, F&C will elevate that investor's risk assessment and file a SAR-SF in accordance with the SAR-SF filing requirements. F&C understands that none of F&C's officers, employees or agents may directly or indirectly disclose to the person who is the subject of the subpoena its existence, its contents or the information F&C used to respond to it. To maintain the confidentiality of any grand jury subpoena F&C receives, F&C will process and maintain the subpoena in F&C's AML records. If F&C files a SAR-SF after receiving a grand jury subpoena, the SAR-SF will not contain any reference to the receipt or existence of the subpoena. The SAR-SF will only contain detailed information about the facts and circumstances of the detected suspicious activity.

Resources: [FinCEN SAR Activity Review, Trends, Tips & Issues, Issue 10 \(Grand Jury Subpoenas and Suspicious Activity Reporting\) \(5/2006\)](#).

d) *Voluntary Information Sharing with Other Financial Institutions*

Requirement. BSA regulations permit financial institutions to share information with other financial institutions under the protection of a safe harbor if certain procedures are followed. If your firm shares or plans to share information with other financial institutions, describe your firm's procedures for such sharing.

Policy. F&C will share information about those suspected of terrorists financing and

money laundering with other financial institutions for the purposes of identifying and reporting activities that may involve terrorist acts or money laundering activities and to determine whether to introduce a customer to a client transaction.

Procedure. F&C will file with FinCEN an initial notice before any sharing occurs and annual notices afterwards. F&C will use the notice form found at <http://www.fincen.gov/> or at FinCEN's Website. Before F&C shares information with another financial institution, F&C will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. F&C understands that this requirement applies even with respect to financial institutions with whom F&C is affiliated, and therefore, F&C will obtain the requisite notices from affiliates and follow all required procedures.

F&C will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, including segregating it from F&C's other books and records and providing access on a need-to-know basis only.

In addition to sharing information with other financial institutions about possible terrorist financing and money laundering, F&C will also share information about particular suspicious transactions with fund sponsors or investment companies for purposes of determining which firm will file a SAR. In cases in which F&C files a SAR for a transaction that has been handled both firms, F&C may share with the clearing broker a copy of the filed SAR, unless it would be inappropriate to do so under the circumstances, such as where F&C filed a SAR concerning the fund or one of its employees.

Rules: 31 C.F.R. §103.110.

Resources: The certification form is at http://www.fincen.gov/fi_infoappb.html; FinCEN Financial Institution Notification Form: FIN-2009-G002; Guidance on the Scope of Permissible Information Sharing Covered by Section 314(a) Safe Harbor of the USA PATRIOT Act (06/16/2009).

e) *Joint Filing of SARs by Broker-Dealers and Other Financial Institutions*

Requirement. The obligation to identify and properly report a suspicious transaction and to timely file a SAR-SF rests separately with each broker-dealer. However, one SAR-SF may be filed for a suspicious activity by all broker-dealers involved in a transaction (so long as the report filed contains all relevant and required information) if the SAR-SF is jointly filed. In addition, if a broker-dealer and another financial institution that is subject to the SAR regulations are involved in the same suspicious transaction, the financial

institution may also file a SAR jointly (so long as the report filed contains all relevant and required information). For example, a broker-dealer and an insurance company may file one SAR with respect to suspicious activity involving the sale of variable insurance products. Disclosures that are made for the purposes of jointly filing a SAR are protected by the safe harbor contained in the SAR regulations. The financial institutions that jointly file a SAR shall each be separately responsible for maintaining a copy of the SAR and should maintain their own SAR supporting documentation in accordance with BSA recordkeeping requirements. See generally Section 12 (Suspicious Transaction and BSA Reporting) for information on a broker-dealer's obligation to file a SAR to report suspicious transactions.

Policy. The CCO will determine whether F&C will file a SAR-SF jointly or concurrently with another financial institution who is involved in the same transaction but in all cases F&C will be separately responsible for maintaining a copy of the SAR and supporting documentation.

Procedure. *F&C will file joint SARs if F&C determines it is appropriate to jointly file a SAR-SF. F&C understands that F&C cannot disclose that F&C has filed a SAR-SF to any financial institution except the financial institution that is filing jointly. If F&C determines it is not appropriate to file jointly (e.g., because the SAR-SF concerns the other broker-dealer or one of its employees), F&C understands that F&C cannot disclose that F&C has filed a SAR-SF to any other financial institution or insurance company.*

Rules: 31 C.F.R. §103.19; 31 C.F.R. § 103.38; 31 C.F.R. § 103.110.

e) Sharing SAR-SFs with Parent Companies

Requirement. On January 20, 2006, FinCEN issued guidance permitting under certain conditions the sharing of SAR-SFs with either foreign or domestic parent entities.

Policy: Before F&C shares SAR-SFs with our parent company, we will have in place written confidentiality agreements or written arrangements that our parent protect the confidentiality of the SAR-SFs through appropriate internal controls

3.3. Checking the Office of Foreign Assets Control (“OFAC”) List

Requirement. Although not part of the BSA and its implementing regulations, the Office of Foreign Assets Control (OFAC) compliance is often performed in conjunction with AML compliance. OFAC is an office of the U.S. Treasury that administers and enforces

economic sanctions and embargoes based on U.S. foreign policy and national security goals that target geographic regions and governments (e.g., Cuba, Sudan and Syria), as well as individuals or entities that could be anywhere (e.g., international narcotics traffickers, foreign terrorists and proliferators of weapons of mass destruction). As part of its enforcement efforts, OFAC publishes a list of Specially Designated Nationals and Blocked Persons (SDN list), which includes names of companies and individuals who are connected with the sanctions targets. U.S. persons are prohibited from dealing with SDNs wherever they are located, and all SDN assets must be blocked. Because OFAC's programs are constantly changing, describe how you will check with OFAC to ensure that your SDN list is current and also that you have complete information regarding the listings of economic sanctions and embargoes enforced by OFAC affecting countries and parties before opening an account and for existing accounts

Policy. Before authorizing a client to accept an investment from a customer to participated in the client transaction, F&C will check to ensure that a customer does not appear on Treasury's OFAC "Specifically Designated Nationals and Blocked Persons" List (SDN List) (See the OFAC Website at www.treas.gov/ofac, which is also available through an automated search tool on <http://www.FINRA.com/RulesRegulation/IssueCenter/Anti-MoneyLaundering/index.htm>, and is not from, or engaging in transactions with people or entities from, embargoed countries and regions listed on the OFAC Website. Since the OFAC Website is updated frequently, F&C will consult the list on a regular basis. F&C may access these lists through various software programs to ensure speed and accuracy.

Procedure. *In the event that F&C determines a customer, or someone with or for whom the investor is transacting, is on the SDN List or is from or engaging in transactions with a person or entity located in an embargoed country or region, F&C will reject the transaction and file a rejected transaction form with OFAC. F&C will also call the OFAC Hotline at 1-800-540-6322. Our review will include customer accounts, transactions involving customers (including activity that passes through F&C such as wires) and the review of customer transactions that involve physical security certificates or application-based investments (e.g., mutual funds).*

3.4. Customer Identification and Verification

Requirement. Firms are required to have and follow reasonable procedures to document and verify the identity of their customers who open new accounts. These procedures must address the types of information F&C will collect from the customer and how it will verify the customer's identity. These procedures must enable F&C to form a reasonable belief that it knows the true identity of its customers. The final rule, which FinCEN and the SEC jointly issued on April 30, 2003, applies to all new accounts opened on or after

October 1, 2003.

Policy. In addition to the information F&C collects on customers in which it introduces to client transactions, F&C has established, documented and maintained a written Customer Identification Program (“CIP”). F&C will collect certain minimum investor identification information from each investor that participates in a client transaction; utilize risk-based measures to verify the identity of each customer; record certain customer identification information and the verification methods and results; provide notice to customers that F&C will seek identification information and compare customer identification information with government-provided lists of suspected terrorists.

Rules: Section 326 of the PATRIOT Act; 31 C.F. R. §§103.122(b)(2)(i)(A) and 103.122(b)(2)(i)(B).

Procedure.

a) Risk-Based Information on Various Account Types

Prior to authorizing an investment by a customer, F&C will collect the following information for all customers, if applicable, for any person, entity or organization who is investing in a client transaction: the name; an address, which will be a residential or business street address (for an individual), an Army Post Office (“APO”) or Fleet Post Office (“FPO”) number, or residential or business street address of next of kin or another contact individual (for an individual who does not have a residential or business street address), or a principal place of business, local office or other physical location (for a person other than an individual); an identification number, which will be a social security number (for U.S. persons) or one or more of the following: a taxpayer identification number, passport number and country of issuance, alien identification card number or number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or other similar safeguard (for non-U.S. persons). In the event that a customer has applied for, but has not received, a taxpayer identification number, F&C will ask for copies of the relevant documents necessary to confirm that the application was filed before the customer participates in the client transaction and to obtain the taxpayer identification number within a reasonable period of time after the account is opened.

Rules: FINRA Rule 3310; Section 326 of the PATRIOT Act; 31 C.F.R. §§103.122 et seq

(1) Individual Investors – *F&C will make reasonable efforts to obtain the customer’s net worth, annual income, occupation and employment data, such as the employer’s address.*

(2) Non-U.S. Person Investors – F&C may inquire more fully depending on a number of factors, such as the country of origin of the account holder or persons authorized to trade [For example, a current passport number or other valid government identification number for non-U.S. person transfers or transmittals of \$3,000 or more. See NTM02-21 at <http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003704.pdf>

(3) Domestic Operating or Commercial Entities – F&C will collect information sufficient to determine the corporate or business entity’s identity, and the authority of its business representative to act on its behalf. In compliance with the new FinCEN Rule and FINRA Rule 3310 (the “CDD Rule”), F&C will obtain beneficial owner information. Specifically, F&C will collect customer identification information on any individual who owns 25% or more of an entity or an individual who controls the legal entity and then verify the identity of the respective individual.

(4) Domestic Trusts – F&C will identify the trustee, the activity the trust authorizes, and the authority of the trust’s representative to act on its behalf.

(5) Foreign and Offshore Entities – F&C will identify the customer and other persons or entities authorized to trade on the customer’s behalf and F&C will consider the entity’s country of incorporation, location and other factors to determine what additional identifying information is necessary and available. (See Sections 5 and 6 below for special procedures governing foreign shell banks and other foreign financial institutions and foreign private banking entities.)

(6) Institutional Investors, Hedge Funds, Investment Funds and Other Intermediary Relationships – While F&C’s AML procedures cover institutional clients, F&C recognizes that certain types of institutional customers are different from retail accounts. Institutional customers often are financially sophisticated customers who trade frequently, in volume, and usually through an intermediary, some of whose AML policies and procedures are sufficient and verifiable. When dealing with an institutional client, F&C will consider whether it has an AML program and the quality of that program, the length and nature of F&C’s experience with the institution, and the history of the institution. In addition, in determining whether it is necessary to identify the customers of non-U.S. institutions, F&C will consider the regulation of the institution by its home country and whether the institution is located in a bank secrecy haven or a non-cooperative country. (See Sections 5 and 6 below for special procedures governing correspondent accounts for foreign shell banks and other foreign financial institutions and foreign private banking accounts.)

(7) High Risk and Non-Cooperative Jurisdictions – F&C will especially scrutinize accounts that are located in problematic countries. F&C will check the lists and accompanying narrative information of the Financial Action Task Force (FATF) [http://www.fatf-gafi.org/pages/0,2987,en_32250379_32235720_1_1_1_1_1,00.html],

FinCEN and the “Major Money Laundering Countries” section of the “Money Laundering and Financial Crimes” part of the U.S. Department of State’s annual International Narcotics Control Strategy Report [<http://www.state.gov/p/inl/rls/nrcrpt/2009>] to determine problematic countries and will factor this information into F&C’s decisions on whether to authorize customers that are based in these jurisdictions to participate in a client transaction.

(8) Senior Foreign Government/Public Officials – Firms must conduct enhanced scrutiny of customers requested or maintained by or on behalf of senior foreign political figures (including their family members and close associates). This is addressed in greater detail below in Section 6 “Private Banking Accounts/Foreign Officials.” Although F&C does not expect to engage in business with senior foreign officials, if F&C does, F&C will conduct enhanced due diligence of “senior foreign political figures,” as well as their families and business associates, to detect and report transactions that involve the proceeds of foreign corruption.

(9) Transferred Accounts – Although F&C is not required to verify the identity of a customer that is transferred to F&C if the customer does not initiate the transfer, F&C will still consider the scenarios above in deciding if the risks of a particular transfer require F&C to obtain and verify information from the transferred customer.

Rules: FINRA Rule 3310; Section 326 of the PATRIOT Act; 31 C.F.R. §§103.175-103.178; 31 C.F.R. § 103.122.

b) Investors Who Refuse To Provide Information

If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, F&C will not allow the customer to invest in a client transaction and, after considering the risks involved, consider never introducing that customer to another client transaction. In either case, F&C’s AML Compliance Officer will be notified so that he/she can determine whether F&C should report the situation to FinCEN on a SAR-SF.

c) Verifying Information

Based on the risk, and to the extent reasonable and practicable, F&C will ensure that F&C has a reasonable basis to believe the true identity of F&C’s customers by using risk-

based procedures to verify and document the accuracy of the information about customers. In verifying a customer's identity, F&C will analyze any logical inconsistencies in the information F&C obtains.

F&C will verify customer identity through documentary evidence, non-documentary evidence, or both. F&C will use documents to verify customer identity when appropriate documents are available. In light of the increased instances of identity fraud, F&C will supplement the use of documentary evidence by using the non-documentary means described below whenever possible. F&C may also use such non-documentary means, after using documentary evidence, if F&C is still uncertain about whether F&C knows the true identity of the customer. In analyzing the verification information, F&C will consider whether there is a logical consistency among the identifying information provided, such as the customer's name, street address, zip code, telephone number (if provided), date of birth, and social security number.

Appropriate documents for verifying the identity of natural persons include the following:

For an individual, an unexpired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport; and

For a person other than an individual, documents showing the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument

F&C understands that F&C is not required to take steps to determine whether the document that the customer has provided to us for identity verification has been validly issued and that F&C may rely on a government-issued identification as verification of a customer's identity. If, however, F&C notes that the document shows some obvious form of fraud, F&C must consider that factor in determining whether F&C can form a reasonable belief that F&C knows the customer's true identity.

F&C will use the following non-documentary methods of verifying an identity:

- Contacting a customer;*
- Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source;*
- Checking references with other financial institutions; or*

- *Obtaining a financial statement.*

F&C will use non-documentary methods of verification in the following situations:

(1) When the customer is unable to present an unexpired government-issued identification document with a photograph or other similar safeguard;

(2) When F&C is unfamiliar with the documents the customer presents for identification verification;

(3) When the customer and F&C do not have face-to-face contact; and

(4) When there are other circumstances that increase the risk that F&C will be unable to verify the true identity of the customer through documentary means.

F&C will verify the information within a reasonable time before or after the customer is introduced to a client transaction. Depending on the nature of the customer and client transaction, F&C may refuse to approve an investment before F&C has verified the information, or in some instances when F&C needs more time, F&C may, pending verification, restrict the amount of information received on the client transaction. If F&C finds suspicious information that indicates possible money laundering or terrorist financing activity, F&C will, after internal consultation with F&C's AML Compliance Officer, file a SAR-SF in accordance with applicable law and regulation.

F&C recognizes that the risk that F&C may not know the customer's true identity may be heightened for certain types of customers, such as a corporation, partnership or trust that is created or conducts substantial business in a jurisdiction that has been designated by the U.S. as a primary money laundering jurisdiction, a terrorist concern or has been designated as non-cooperative by an international body. F&C will identify customers that pose a heightened risk of not being properly identified. Therefore, F&C will take the following additional measures that may be used to obtain information about the identity of the individuals associated with a client transaction, when standard documentary methods prove to be insufficient.

Rule: 31 C.F.R. § 103.122(b).

d) Lack of Verification

When F&C cannot form a reasonable basis to verify the true identity of a customer, F&C will not allow the customer to participate in the transaction or, in the event funds have already been received by the client, not allow the client to accept the investment until

such time that F&C can verify the customer's identity.

Rule: 31 C.F.R. §103.122(b)(2)(iii).

e) Recordkeeping

F&C will document F&C's verification, including all identifying information provided by a customer to F&C, the methods used and results of the verification, and the resolution of any discrepancy in the identifying information. F&C will keep records containing a description of any document that F&C relied on to verify a customer's identity, noting the type of document, any identification number contained in the document, the place of issuance, and if any, the date of issuance and expiration date. With respect to non-documentary verification, F&C will retain documents that describe the methods and the results of any measures F&C took to verify the identity of a customer. F&C will maintain records of all identification information for five years from the date of last investment in a client transaction; F&C will retain records made about verification of the Investor's identity for five years.

Rule: 31 C.F.R. §103.122(b)(3).

f) Comparison with Government Provided Lists of Terrorists and Other Criminals

From time to time, F&C may receive notice that a Federal government agency has issued a list of known or suspected terrorists. Within a reasonable period of time (or earlier, if required by another Federal law or regulation or Federal directive issued in connection with an applicable list), F&C will determine whether a customer appears on any such list of known or suspected terrorists or terrorist organizations issued by any Federal government agency and designated as such by Treasury in consultation with the Federal functional regulators. F&C will follow all Federal directives issued in connection with such lists.

Rule: 31C.F.R. §103.122(b)(4).

Resources: NTM 02-21, page 6, n.24; 31 C.F.R. §103.122.

g) Notice to Investors

F&C will provide notice to F&C's customers that F&C is requesting information from them to verify their identities, as required by Federal law. F&C will use the following method to provide notice to customers:

F&C generally will notify its customers that it may request information from them to

verify their identity as required by Federal law, if appropriate. From time to time, absent notification in person, F&C may provide written notice to its customers similar to the following:

Important Information About Procedures for Working with Investors

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

What this means for you: When you open account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents We will continue to comply with Treasury's Office of Foreign Asset Control rules prohibiting transactions with certain foreign countries or their nationals. This Investor Identification Data Form and your questionnaire are intended to collect certain "nonpublic" information to determine your identity and your financial suitability, and to satisfy the information reporting requirements of the Patriot Act and other regulatory agencies that govern the securities industry. We will use the information collected to compare against government provided terrorists lists.

Rule: FINRA Rule3310; Section 326 of the PATRIOT Act; 31 C.F.R. §103.122(b)(5).

h) Reliance on Another Financial Institution for Identity Verification

F&C may, under the following circumstances, rely on the performance by another financial institution (including an affiliate), i.e., its clearing firm, for some or all of the elements of F&C's customer identification program with respect to any customer that is opening an account or has established an account or similar business relationship with the other financial institution to provide or engage in services, dealings or other financial transactions::

When such reliance is reasonable under the following circumstances:

When the other financial institution is subject to a rule implementing the AML compliance program requirements of 31 U.S.C. § 5318(h), and is regulated by a Federal functional regulator; and

When the other financial institution has entered into a contract with F&C requiring it to certify annually to F&C that it has implemented its AML program, and that it will perform (or its agent will perform) specified requirements of the customer identification

program.

3.5. General Customer Due Diligence

Requirement. Customer Due Diligence (CDD) is the foundation of a strong AML compliance program that is broader than CIP. While CDD is not specifically required by the AML rules, it is not possible to have an adequate AML program or suspicious activity reporting program without conducting appropriate ongoing customer due diligence. CDD enables F&C to evaluate the risk presented by each customer and provides F&C with a baseline for evaluating customer transactions to determine whether the transactions are suspicious and need to be reported. See [NTM 02-21](#), page 7.

Policy. It is important to our AML and SAR-SF reporting program that we obtain sufficient information about each customer to allow us to evaluate the risk presented by that customer and to detect and report suspicious activity. When we open an account for a customer, the due diligence we perform may be in addition to customer information obtained for purposes of our CIP.

Procedure. *The AMLCO, based on certain criteria or a combination of information may identify an account that should be deemed a higher risk. In these situations the AMLCO will attempt to gain additional information from the customer, like the list below:*

- *the purpose of the account;*
- *the source of funds and wealth;*
- *the beneficial owners of the accounts;*
- *the customer's (or beneficial owner's) occupation or type of business;*
- *financial statements;*
- *banking references;*
- *domicile (where the customer's business is organized);*
- *description of customer's primary trade area and whether international transactions are expected to be routine;*
- *description of the business operations and anticipated volume of trading;*
- *explanations for any changes in account activity.*

F&C will also ensure that the customer information remains accurate by regularly requiring customers to update and verify information on file.

F&C may deem some accounts to be of higher risk based on:

- *customer's actual or anticipated business activity;*
- *customer's ownership structure;*

- *anticipated or actual volume and types of transactions;*
- *transactions involving high-risk jurisdictions.*

Higher risk accounts will be subject to greater due diligence.

3.6. Correspondent Accounts for Foreign Shell Banks

a) Detecting and Closing Correspondent Accounts of Foreign Shell Banks

Requirement. Broker-dealers are prohibited from establishing, maintaining, administering or managing correspondent accounts in the United States for foreign shell banks. Broker-dealers also must take reasonable steps to ensure that any correspondent account established, maintained, administered or managed by the broker-dealer in the United States for a foreign bank is not being used by that foreign bank to indirectly provide banking services to a foreign shell bank. The BSA regulations allow covered financial institutions to receive a safe harbor for compliance with these requirements if they use the certification process described in the regulations. A covered financial institution must obtain a certification from each foreign bank for which it maintains a correspondent account “at least once every three years” to maintain the safe harbor.

In the context above, “correspondent account” is an account established for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of, the foreign bank, or to handle other financial transactions related to such foreign bank.

Foreign shell banks are foreign banks without a physical presence in any country. A "foreign bank" is any bank organized under foreign law or an agency, branch or office of a bank located outside the U.S. The term does not include an agent, agency, branch or office within the U.S. of a bank organized under foreign law.

The prohibition does not include foreign shell banks that are regulated affiliates. Foreign shell banks that are regulated affiliates are affiliates of a depository institution, credit union or foreign bank that maintains a physical presence in the U.S., or a foreign country, and are subject to supervision by a banking authority in the country regulating that affiliated depository institution, credit union or foreign bank. Foreign branches of a U.S. broker-dealer are not subject to this requirement, and “correspondent accounts” of foreign banks that are clearly established, maintained, administered or managed only at foreign branches are not subject to this regulation.

Policy: : We will identify foreign bank accounts and any such account that is a correspondent account (any account that is established for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of, the foreign bank, or to handle other financial transactions related to such foreign bank) for foreign

shell banks.

Procedure. F&C's AMLCO will review all foreign bank accounts upon opening and conduct due diligence to detect the establishment of any foreign bank to receive deposits from or make payments to or other disbursements on behalf of the foreign bank. Upon finding or suspecting such accounts, firm employees will notify the AMLCO, who will terminate any verified correspondent account in the United States for a foreign shell bank. We will also terminate any correspondent account that we have determined is not maintained by a foreign shell bank but is being used to provide services to such a shell bank. We will exercise caution regarding liquidating positions in such accounts and take reasonable steps to ensure that no new positions are established in these accounts during the termination period. We will terminate any correspondent account for which we have not obtained the information described in Appendix A of the regulations regarding shell banks within the time periods specified in those regulations.

Rules: 31 C.F.R. §§103.175, 103.177.

b) Certifications

Requirement. Firms are required to describe their process for obtaining certain required information from any foreign bank account holders and for obtaining the necessary certifications at least once every three years to rely on the safe harbor provided by the BSA regulations.

Policy. We will require our foreign bank account holders to identify the owners of the foreign bank if it is not publicly traded, the name and street address of a person who resides in the United States and is authorized and has agreed to act as agent for acceptance of legal process, and an assurance that the foreign bank is not a shell bank nor is it facilitating activity of a shell bank. In lieu of this information the foreign bank may submit the Certification Regarding Correspondent Accounts For Foreign Banks provided in the BSA regulations. We will re-certify when we believe that the information is no longer accurate or at least once every three years.

Rules: 31 C.F.R. §§ 103.175, 103.177.

Resources: [31 C.F.R., Pt. 103, Subpt. I, App. A \(Certification Regarding Correspondent Accounts for Foreign Banks\); FIN-2006-G003: Frequently Asked Questions: Foreign Bank Recertifications under 31 C.F.R. § 103.77 \(February 3, 2006\).](#)

c) Recordkeeping for Correspondent Accounts for Foreign Banks

Requirement. Firms must keep records identifying the owners of foreign banks with U.S. correspondent accounts and the name and address of the U.S. agent for service of legal

process for those banks.

Policy. We will keep records identifying the owners of foreign banks with U.S. correspondent accounts and the name and address of the U.S. agent for service of legal process for those banks.

Rules: 31 C.F.R. §§ 103.175, 103.177.

d) Summons or Subpoena of Foreign Bank Records; Termination of Correspondent Relationships with Foreign Bank

Requirement. The Secretary of the Treasury or the Attorney General of the United States may issue a summons or subpoena to any foreign bank that maintains a correspondent account in the United States and may request records related to such correspondent account, including records maintained outside of the United States relating to the deposit of funds into the foreign bank. The summons or subpoena may be served on the foreign bank in the United States if the foreign bank has a representative in the United States, or in a foreign country pursuant to any mutual legal assistance treaty, multilateral agreement or other request for international law enforcement assistance.

Policy. As a broker-dealer that may maintain a correspondent account for a foreign bank in the United States F&C must maintain records in the United States identifying the owners of such foreign bank whose shares are not publicly traded and the name and street address of a person who resides in the United States and is authorized, and has agreed to be an agent to accept service of legal process for the foreign bank's correspondent account. Upon receipt of a written request from a federal law enforcement officer for this information, F&C must provide such information to the requesting officer no later than seven days after receipt of the request.

Additionally, F&C must terminate any correspondent relationship with a foreign bank not later than 10 business days after receipt of written notice from the Secretary of the Treasury or the Attorney General of the United States that the foreign bank has failed to: (1) comply with a summons or subpoena issued by these two entities; or (2) initiate proceedings in a United States court contesting such summons or subpoena.

Procedures. When we receive a written request from a federal law enforcement officer for information identifying the non-publicly traded owners of any foreign bank for which we maintain a correspondent account in the United States and/or the name and address of a person residing in the United States who is an agent to accept service of legal process for a foreign bank's correspondent account, we will provide that information to the requesting officer not later than seven days after receipt of the request. We will close, within 10 days, any correspondent account for a foreign bank that we learn from FinCEN or the Department of Justice has failed to comply with a

summons or subpoena issued by the Secretary of the Treasury or the Attorney General of the United States or has failed to contest such a summons or subpoena. We will scrutinize any correspondent account activity during that 10-day period to ensure that any suspicious activity is appropriately reported and to ensure that no new positions are established in these correspondent accounts.

Rule: 31 C.F.R. § 103.185.

3.7. Due Diligence and Enhanced Due Diligence Requirements for Correspondent Accounts of Foreign Financial Institutions

a) Due Diligence for Correspondent Accounts of Foreign Financial Institutions

Requirement. The BSA, as amended by Section 312 of the USA PATRIOT Act, and the rules promulgated thereunder require, in part, that a firm, as part of its anti-money laundering program, establish a due diligence program that includes appropriate, specific, risk-based and, where necessary, enhanced policies, procedures and controls that are reasonably designed to enable F&C to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account established, maintained, administered or managed by F&C for a foreign financial institution.

Policy. F&C will comply with guidance issued on January 30, 2008 by FinCEN clarifying that covered financial institutions (which includes U.S. broker-dealers) presenting a negotiable instrument for payment to a foreign financial institution on which the instrument is drawn would not, by itself, be establishing a correspondent account between the covered financial institution and the paying institution. See [FinCEN Guidance on Application of Correspondent Account Rules to the Presentation of Negotiable Instruments Received by a Covered Financial Institution for Payment \(1/30/08\)](#).

F&C will adopt and follow a due diligence program for any correspondent accounts established on behalf of foreign financial institutions. A foreign financial institution is:

- (1) a foreign bank;
- (2) any branch or office located outside the United States of a broker-dealer; futures commission merchant or introducing broker; or open-end mutual fund company;
- (3) any other person organized under foreign law (other than a branch or office of such person in the United States) that, if it were located in the United States, would be a broker-dealer; futures commission merchant or introducing broker; or open-end mutual fund company; and
- (4) any person organized under foreign law (other than a branch or office of such person in the United States) that is engaged in the business of, and is readily identifiable as: (a) a

currency dealer or exchanger; or (b) a money transmitter.

A person, however, is not “engaged in the business” of a currency dealer, a currency exchanger or a money transmitter if such transactions are merely incidental to the person’s business.

A “correspondent account” is defined in this context as any account established for a foreign financial institution to receive deposits from, or to make payments or other disbursement on behalf of, the foreign financial institution, or to handle other financial transactions for the foreign financial institution. “Account” is defined as any formal relationship established with a broker or dealer in securities to provide regular services to effect transactions in securities, including but not limited to, the purchase or sale of securities and securities loaned and borrowed activity, and to hold securities or other assets for safekeeping or as collateral.

For broker-dealers, correspondent accounts established on behalf of foreign financial institutions include, but are not limited to: (1) accounts to purchase, sell, lend, or otherwise hold securities, including securities repurchase programs; (2) prime brokerage accounts that clear and settle securities transactions for clients; (3) accounts for trading foreign currency; (4) custody accounts for holding securities or other assets in connection with securities transactions as collateral; and (5) over-the-counter derivative contracts.

Procedure. We will conduct an inquiry to determine whether a foreign financial institution has a correspondent account established, maintained, administered or managed by F&C.

If we have correspondent accounts for foreign financial institutions, we will assess the money laundering risk posed, based on a consideration of relevant risk factors. We can apply all or a subset of these risks factors depending on the nature of the foreign financial institutions and the relative money laundering risk posed by such institutions.

The relevant risk factors can include:

- *the nature of the foreign financial institution’s business and the markets it serves;*
- *the type, purpose and anticipated activity of such correspondent account;*
- *the nature and duration of F&C’s relationship with the foreign financial institution and its affiliates;*
- *the anti-money laundering and supervisory regime of the jurisdiction that issued the foreign financial institution’s charter or license and, to the extent reasonably*

available, the jurisdiction in which any company that is an owner of the foreign financial institution is incorporated or chartered; and

- *information known or reasonably available to the covered financial institution about the foreign financial institution's anti-money laundering record.*

In addition, our due diligence program may consider additional factors that have not been enumerated above when assessing foreign financial institutions that pose a higher risk of money laundering.

We will apply our risk-based due diligence procedures and controls to each financial foreign institution correspondent account on an ongoing basis. This includes periodically reviewing the activity of each foreign financial institution correspondent sufficient to ensure whether the nature and volume of account activity is generally consistent with the information regarding the purpose and expected account activity and to ensure that F&C can adequately identify suspicious transactions. Ordinarily, we will not conduct this periodic review by scrutinizing every transaction taking place within the account. One procedure we may use instead is to use any account profiles for our correspondent accounts (to the extent we maintain these) that we ordinarily use to anticipate how the account might be used and the expected volume of activity to help establish baselines for detecting unusual activity.

Rules: 31 C.F.R. §§ 103.175, 103.176.

Resources: [FIN-2006-G009 Application of the Regulations Requiring Special Due Diligence Programs for Certain Foreign Accounts to the Securities and Futures Industries \(May 10, 2006\).](#)

b) Enhanced Due Diligence

Requirement. The BSA, as amended by Section 312 of the USA PATRIOT Act, and the rules promulgated thereunder require, in part, that a firm's due diligence program for correspondent accounts of foreign financial institutions include the performance of enhanced due diligence on correspondent accounts for any foreign bank that operates under:

- (1) an offshore banking license;
- (2) a banking license issued by a foreign country that has been designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member and with which designation the U.S. representative to the group or organization concurs; or
- (3) a banking license issued by a foreign country that has been designated by the Secretary of the Treasury as warranting special measures due to money laundering concerns.

Policy. F&C will implement a due diligence program for correspondent accounts of

foreign financial institutions include the performance of enhanced due diligence on correspondent accounts for any foreign bank that operates under one the aforementioned banking licenses

Procedure. We will assess any correspondent accounts for foreign financial institutions to determine whether they are correspondent accounts that have been established, maintained, administered or managed for any foreign bank that operates under:

- (1) an offshore banking license;*
- (2) a banking license issued by a foreign country that has been designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member and with which designation the U.S. representative to the group or organization concurs; or*
- (3) a banking license issued by a foreign country that has been designated by the Secretary of the Treasury as warranting special measures due to money laundering concerns.*

If we determine that we have any correspondent accounts for these specified foreign banks, we will perform enhanced due diligence on these correspondent accounts. The enhanced due diligence that we will perform for each correspondent account will include, at a minimum, procedures to take reasonable steps to:

- (1) Conduct enhanced scrutiny of the correspondent account to guard against money laundering and to identify and report any suspicious transactions. Such scrutiny will not only reflect the risk assessment that is described in Section 8.a. above, but will also include procedures to, as appropriate:*

- (i) Obtain (e.g., using a questionnaire) and consider information related to the foreign bank's AML program to assess the extent to which the foreign bank's correspondent account may expose us to any risk of money laundering;*

- (ii) monitor transactions to, from or through the correspondent account in a manner reasonably designed to detect money laundering and suspicious activity (this monitoring may be conducted manually or electronically and may be done on an individual account basis or by product activity); and*

- (iii) obtain information from the foreign bank about the identity of any person with authority to direct transactions through any correspondent account that is a payable-through account (a correspondent account maintained for a foreign bank through which the foreign bank permits its customer to engage, either directly or through a subaccount, in banking activities) and the sources and beneficial owners of funds or other assets in the payable-through account.*

(2) determine whether the foreign bank maintains correspondent accounts for other foreign banks that enable those other foreign banks to gain access to the correspondent account under review and, if so, to take reasonable steps to obtain information to assess and mitigate the money laundering risks associated with such accounts, including, as appropriate, the identity of those other foreign banks; and

(3) if the foreign bank's shares are not publicly traded, determine the identity of each owner and the nature and extent of each owner's ownership interest. We understand that for purposes of determining a private foreign bank's ownership, an "owner" is any person who directly or indirectly owns, controls or has the power to vote 10 percent or more of any class of securities of a foreign bank. We also understand that members of the same family shall be considered to be one person.

Rules: 31 C.F.R. §§ 103.175, 103.176.

c) Special Procedures When Due Diligence or Enhanced Due Diligence Cannot Be Performed

Requirement. A firm must include procedures to follow in circumstances where F&C cannot perform appropriate due diligence for a correspondent account of a foreign financial institution or the enhanced due diligence that is required for correspondent accounts for certain foreign banks.

Policy. F&C will adopt procedures to follow in circumstances where F&C cannot perform appropriate due diligence for a correspondent account of a foreign financial institution or the enhanced due diligence that is required for correspondent accounts for certain foreign banks.

Procedure. *In the event there are circumstances in which we cannot perform appropriate due diligence with respect to a correspondent account, we will determine, at a minimum, whether to refuse to open the account, suspend transaction activity, file a SAR-SF, close the correspondent account and/or take other appropriate action.*

Rules: 31 C.F.R. §§ 103.175, 103.176.

3.8. Due Diligence and Enhanced Due Diligence Requirements for Private Banking Accounts/Senior Foreign Political Figures

Requirement. Firms must have a due diligence program that is reasonably designed to detect and report any known or suspected money laundering conducted through or involving any private banking account maintained by or on behalf of a non-U.S. person, as well as the existence of the proceeds of foreign corruption in any such account. This requirement applies to all private banking accounts for non-U.S. persons, regardless of

when they were opened. Accounts requested or maintained by or on behalf of “senior foreign political figures,” which is defined below and includes their immediate family members and close known associates, require enhanced scrutiny. Senior foreign political figures are often referred to as “politically exposed persons” or “PEPs.”

A “private banking” account is an account (or any combination of accounts) that requires a minimum aggregate deposit of \$1,000,000, is established for one or more individuals and is assigned to or administered or managed by, in whole or in part, an officer, employee or agent of a financial institution acting as a liaison between the financial institution and the direct or beneficial owner of the account.

A “senior foreign political figure” includes a current or former senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned commercial enterprise; a corporation, business, or other entity formed by or for the benefit of any such individual; an immediate family member of such an individual; or any individual widely and publicly known (or actually known by F&C) to be a close personal or professional associate of such an individual.

Policy. F&C will adopt and maintain a due diligence program that is reasonably designed to detect and report any known or suspected money laundering conducted through or involving any private banking account maintained by or on behalf of a non-U.S. person, as well as the existence of the proceeds of foreign corruption in any such account.

Procedure. *F&C will review accounts to determine whether we offer any private banking accounts and we will conduct due diligence on such accounts. This due diligence will include, at least, (1) ascertaining the identity of all nominal holders and holders of any beneficial ownership interest in the account (including information on those holders' lines of business and sources of wealth); (2) ascertaining the source of funds deposited into the account; (3) ascertaining whether any such holder may be a senior foreign political figure; and (4) detecting and reporting, in accordance with applicable laws and regulations, any known or suspected money laundering, or use of the proceeds of foreign corruption.*

We will review public information, including information available in Internet databases, to determine whether any private banking account holders are senior foreign political figures. If we discover information indicating that a particular private banking account holder may be a senior foreign political figure, and upon taking additional reasonable steps to confirm this information, we determine that the individual is, in fact, a senior foreign political figure, we will conduct additional enhanced due diligence to detect and report transactions that may involve money laundering or the proceeds of foreign

corruption.

In so doing, we will consider the risks that the funds in the account may be the proceeds of foreign corruption by determining the purpose and use of the private banking account, location of the account holder(s), source of funds in the account, type of transactions conducted through the account and jurisdictions involved in such transactions. The degree of scrutiny we will apply will depend on various risk factors, including, but not limited to, whether the jurisdiction the senior foreign political figure is from is one in which current or former political figures have been implicated in corruption and the length of time that a former political figure was in office. Our enhanced due diligence might include, depending on the risk factors, probing the account holder's employment history, scrutinizing the account holder's source(s) of funds, and monitoring transactions to the extent necessary to detect and report proceeds of foreign corruption, and reviewing monies coming from government, government controlled or government enterprise accounts (beyond salary amounts).

If we do not find information indicating that a private banking account holder is a senior foreign political figure, and the account holder states that he or she is not a senior foreign political figure, then we may make an assessment if a higher risk for money laundering, nevertheless, exists independent of the classification. If a higher risk is apparent, we will consider additional due diligence measures such as [describe in detail the additional measures].

In either case, if due diligence (or the required enhanced due diligence, if the account holder is a senior foreign political figure) cannot be performed adequately, we will, after consultation with F&C's AML Compliance Person and, as appropriate, not open the account, suspend the transaction activity, file a SAR-SF or close the account.

Rules: 31 C.F.R. §§ 103.175, 103.178.

Resource: [Guidance on Enhanced Scrutiny for Transactions that May Involve the Proceeds of Foreign Official Corruption.](#)

3.9. Compliance with FinCEN's Issuance of Special Measures Against Foreign Jurisdictions, Financial Institutions or International Transactions of Primary Money Laundering Concern

Requirement. Section 311 of the USA PATRIOT Act, which grants the Secretary of the Treasury the authority, after finding that reasonable grounds exist for concluding that (1) a jurisdiction outside of the United States; (2) one or more financial institutions operating outside of the United States; (3) one or more classes of transactions within, or involving, a jurisdiction outside of the United States; or (4) one or more types of accounts is of "primary money laundering concern," to require domestic financial institutions, such as broker-dealers, to take certain "special measures" against the primary money laundering

concern.

Policy. If FinCEN issues a final rule imposing a special measure against one or more foreign jurisdictions or financial institutions, classes of international transactions or types of accounts deeming them to be of primary money laundering concern, we understand that we must read FinCEN's final rule and follow any prescriptions or prohibitions contained in that rule.

Procedure. For example, if the final rule deems a certain bank and its subsidiaries (Specified Bank) to be of primary money laundering concerns, a special measure may be a prohibition from opening or maintaining a correspondent account in the United States for, or on behalf of, the Specified Banks. In that case, we will take the following steps:

(1) We will review our account records, including correspondent account records, to ensure that our accountholders and correspondent accountholders maintain no accounts directly for, or on behalf of, the Specified Banks; and

(2) We will apply due diligence procedures to our correspondent accounts that are reasonably designed to guard against indirect use of those accounts by the Specified Banks. Such due diligence may include:

- *Notification to Correspondent Accountholders*

We will notify our correspondent accountholders that the account may not be used to provide the Specified Banks with access to us [provide details of what the language of the notice will state].

We will transmit the notice to our correspondent accounts using the following method [specify], and we shall retain documentation of such notice.

- *Identification of Indirect Use*

We will take reasonable steps in order to identify any indirect use of our correspondent accounts by the Specified Banks. We will determine if such indirect use is occurring from transactional records that we maintain in the normal course of business. We will take a risk-based approach when deciding what, if any, additional due diligence measures we should adopt to guard against the indirect use of correspondent accounts by the Specified Banks, based on risk factors such as the type of services offered by, and geographic locations of, their correspondents.

We understand that we have an ongoing obligation to take reasonable steps to identify all correspondent account services our correspondent accountholders may directly or

indirectly provide to the Specified Banks.

There is a special section on the FinCEN Web site where all the Section 311 designations are listed. See [Section 311 – Special Measures](#).

Rules: 31 C.F.R. §§ 103.186, 103.187, 103.188, 103.192, 103.193.

Resources: [Section 311 – Special Measures](#) (for information on all special measures issued by FinCEN); [NTM 07-17](#); [NTM 06-41](#).

3.10. Monitoring Accounts for Suspicious Activity

Requirement. Broker-dealers must establish risk-based procedures reasonably designed to detect and report suspicious transactions in order to comply with the BSA and FINRA Rule 3310.

Policy. The risk of suspicious activity will vary for each firm depending on its size and location and based on its business model and the products and services it offers. F&C will identify its risk by looking at the type of customers we serve, where our customers are located, and the types of products and services we offer. It is paramount that F&C's monitoring procedures be tailored to our firm's business and identified risks. Additionally, our procedures should identify "red flags" or indicators of possible suspicious activity to identify circumstances warranting further due diligence by F&C. Higher risk accounts and transactions generally need to be subjected to greater scrutiny.

Procedure. *We will monitor account activity for unusual size, volume, pattern or type of transactions, taking into account risk factors and red flags that are appropriate to our business. (Red flags are identified in Section 11.b. below.) Monitoring will be conducted through manual or electronic methods: or both. If automated monitoring is utilized, we will develop a list of reports as well as their purpose and description. If manual monitoring is utilized, our procedures will include a list of documents/systems to be reviewed and the purpose of the review. Regardless of the method, the AML Compliance Person or his or her designee will be responsible for this monitoring and its frequency as well as who will review any activity that our monitoring system detects, will determine whether any additional steps are required, will document when and how this monitoring is carried out, and will report suspicious activities to the appropriate authorities.*

We will conduct the following reviews of activity that our monitoring system detects: transactions, account information, trading patterns, funds transfer history, correspondence, emails, etc. We will document our monitoring and reviews as follows: [describe]. The AML Compliance Person or his or her designee will conduct an appropriate investigation and review relevant information from internal or third-party

sources before a SAR-SF is filed. Relevant information can include, but not be limited to, the following: new account documentation, transaction history, funds transfer history, and correspondence.

Rules: 31 C.F.R. §103.19; FINRA Rule 3310(a).

Resource: Final Rule Release: 67 Fed. Reg. 44048 (July 1, 2002) (“it is intended that broker-dealers, and indeed every type of financial institution to which the suspicious transaction reporting rules of 31 CFR part 103 apply, will evaluate customer activity and relationships for money laundering risks, and design a suspicious transaction monitoring program that is appropriate for the particular broker-dealer in light of such risks”).

a) Emergency Notification to Law Enforcement by Telephone

Requirement. Firms are required to have procedures that describe how and when they will call the appropriate law enforcement authority in emergencies.

Policy. The CCO or the AMLCO will evaluate any occurrence that may require that appropriate law enforcement be called by F&C.

Procedure. In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, we will immediately call an appropriate law enforcement authority. If a customer or company appears on OFAC’s SDN list, we will call the OFAC Hotline at (800) 540-6322. Other contact numbers we will use are: FinCEN’s Financial Institutions Hotline ((866) 556-3974) (especially to report transactions relating to terrorist activity), local U.S. Attorney’s office (insert contact number), local FBI office (insert contact number) and local SEC office (insert contact number) (to voluntarily report such violations to the SEC in addition to contacting the appropriate law enforcement authority). If we notify the appropriate law enforcement authority of any such activity, we must still file a timely SAR-SF.

Although we are not required to, in cases where we have filed a SAR-SF that may require immediate attention by the SEC, we may contact the SEC via the SEC SAR Alert Message Line at (202) 551-SARS (7277) to alert the SEC about the filing. We understand that calling the SEC SAR Alert Message Line does not alleviate our obligations to file a SAR-SF or notify an appropriate law enforcement authority.

b) Red Flags

Policy. F&C will monitor activity for Red flags that signal possible money laundering or terrorist financing that include, but are not limited to:

Customers – Insufficient or Suspicious Information

- Provides unusual or suspicious identification documents that cannot be readily verified.
- Reluctant to provide complete information about nature and purpose of business, prior banking relationships, anticipated account activity, officers and directors or business location.
- Refuses to identify a legitimate source for funds or information is false, misleading or substantially incorrect.
- Background is questionable or differs from expectations based on business activities.
- Customer with no discernable reason for using F&C's service.

Efforts to Avoid Reporting and Recordkeeping

- Reluctant to provide information needed to file reports or fails to proceed with transaction.
- Tries to persuade an employee not to file required reports or not to maintain required records.
- "Structures" deposits, withdrawals or purchase of monetary instruments below a certain amount to avoid reporting or recordkeeping requirements.
- Unusual concern with F&C's compliance with government reporting requirements and firm's AML policies.

Certain Funds Transfer Activities

- Wire transfers to/from financial secrecy havens or high-risk geographic location without an apparent business reason.
- Many small, incoming wire transfers or deposits made using checks and money orders. Almost immediately withdrawn or wired out in manner inconsistent with customer's business or history. May indicate a Ponzi scheme.
- Wire activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose.

Certain Deposits or Dispositions of Physical Certificates

- Physical certificate is titled differently than the account.
- Physical certificate does not bear a restrictive legend, but based on history of the stock and/or volume of shares trading, it should have such a legend.
- Customer's explanation of how he or she acquired the certificate does not make sense or changes.
- Customer deposits the certificate with a request to journal the shares to multiple accounts, or to sell or otherwise transfer ownership of the shares.

Certain Securities Transactions

- Customer engages in prearranged or other non-competitive trading, including wash or cross trades of illiquid securities.
- Two or more accounts trade an illiquid stock suddenly and simultaneously.
- Customer journals securities between unrelated accounts for no apparent business reason.
- Customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason.
- Customer transactions include a pattern of receiving stock in physical form or the incoming transfer of shares, selling the position and wiring out proceeds.
- Customer's trading patterns suggest that he or she may have inside information.

Transactions Involving Penny Stock Companies

- Company has no business, no revenues and no product.
- Company has experienced frequent or continuous changes in its business structure.
- Officers or insiders of the issuer are associated with multiple penny stock issuers.
- Company undergoes frequent material changes in business strategy or its line of business.
- Officers or insiders of the issuer have a history of securities violations.
- Company has not made disclosures in SEC or other regulatory filings.
- Company has been the subject of a prior trading suspension.

Transactions Involving Insurance Products

- Cancels an insurance contract and directs funds to a third party.
- Structures withdrawals of funds following deposits of insurance annuity checks signaling an effort to avoid BSA reporting requirements.
- Rapidly withdraws funds shortly after a deposit of a large insurance check when the purpose of the fund withdrawal cannot be determined.
- Cancels annuity products within the free look period which, although could be legitimate, may signal a method of laundering funds if accompanied with other suspicious indicia.
- Opens and closes accounts with one insurance company then reopens a new account shortly thereafter with the same insurance company, each time with new ownership information.
- Purchases an insurance product with no concern for investment objective or performance.
- Purchases an insurance product with unknown or unverifiable sources of funds, such as cash, official checks or sequentially numbered money orders.

Activity Inconsistent With Business

- Transactions patterns show a sudden change inconsistent with normal activities.
- Unusual transfers of funds or journal entries among accounts without any apparent business purpose.
- Maintains multiple accounts, or maintains accounts in the names of family members or corporate entities with no apparent business or other purpose.
- Appears to be acting as an agent for an undisclosed principal, but is reluctant to provide information.

Other Suspicious Customer Activity

- Unexplained high level of account activity with very low levels of securities transactions.
- Funds deposits for purchase of a long-term investment followed shortly by a request to liquidate the position and transfer the proceeds out of the account.
- Law enforcement subpoenas.
- Large numbers of securities transactions across a number of jurisdictions.
- Buying and selling securities with no purpose or in unusual circumstances (*e.g.*, churning at customer's request).
- Payment by third-party check or money transfer without an apparent connection to the customer.
- Payments to third-party without apparent connection to customer.
- No concern regarding the cost of transactions or fees (*i.e.*, surrender fees, higher than necessary commissions, etc.).

c) Responding to Red Flags and Suspicious Activity

Procedure. *When an employee of F&C detects any red flag, or other activity that may be suspicious, he or she will notify [include procedures for escalation of suspicious activity]. Under the direction of the AML Compliance Person, F&C will determine whether or not and how to further investigate the matter. This may include gathering additional information internally or from third-party sources, contacting the government, freezing the account and/or filing a SAR-SF.*

Rule: 31 C.F.R. § 103.19.

Resources: [FinCEN's Web site](#); [OFAC Web page](#); [NTM 02-21](#); [NTM 02-47](#).

Rule: 31 C.F.R. §103.122(b)(6).

3.11. Suspicious Transactions and BSA Reporting

Requirement. Firms must exercise due diligence in monitoring suspicious activity as the

regulations require firms to file a SAR-SF when they "know, suspect, or have reason to suspect" that transactions involve certain suspicious activities.

Firms are exempt from reporting on a SAR-SF the following violations: (1) a robbery or burglary that is committed or attempted and already reported to appropriate law enforcement authorities; (2) lost, missing, counterfeit or stolen securities that F&C has reported pursuant to Exchange Act Rule 17f-1; and (3) violations of the Federal securities laws or self-regulatory organization (SRO) rules by F&C, its officers, directors, employees or registered representatives, that are reported appropriately to the SEC or SRO, except for a violation of Exchange Act Rule 17a-8, which must be reported on a SAR-SF. However, if a firm relies on one of these exemptions, it may be required to demonstrate that it relied on one of these exemptions and must maintain records, for at least five years, of its determination not to file a SAR-SF based on the exemption.

Rule: 31 C.F.R. §103.19.

Policy. F&C will exercise due diligence in monitoring suspicious activity as the regulations require firms to file a SAR-SF when they "know, suspect, or have reason to suspect" that transactions involve certain suspicious activities.

Procedure. *Filing a SAR-SF - We will file SAR-SFs with FinCEN for any transactions (including deposits and transfers) conducted or attempted by, at or through our firm involving \$5,000 or more of funds or assets (either individually or in the aggregate) where we know, suspect or have reason to suspect:*

- (1) the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;*
- (2) the transaction is designed, whether through structuring or otherwise, to evade any requirements of the BSA regulations;*
- (3) the transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and after examining the background, possible purpose of the transaction and other facts, we know of no reasonable explanation for the transaction; or*
- (4) the transaction involves the use of F&C to facilitate criminal activity.*

We will also file a SAR-SF and notify the appropriate law enforcement authority in situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes. In addition, although we are not required to, we may contact that SEC in cases where a SAR-SF we have filed may require immediate attention by the SEC. See Section 11 for contact numbers. We also understand that, even if we notify a regulator of a violation, unless it is specifically covered by one

of the exceptions in the SAR rule, we must file a SAR-SF reporting the violation.

We may file a voluntary SAR-SF for any suspicious transaction that we believe is relevant to the possible violation of any law or regulation but that is not required to be reported by us under the SAR rule. It is our policy that all SAR-SFs will be reported regularly to the Board of Directors and appropriate senior management, with a clear reminder of the need to maintain the confidentiality of the SAR-SF.

We will report suspicious transactions by completing a SAR-SF, and we will collect and maintain supporting documentation as required by the BSA regulations. We will file a SAR-SF no later than 30 calendar days after the date of the initial detection of the facts that constitute a basis for filing a SAR-SF. If no suspect is identified on the date of initial detection, we may delay filing the SAR-SF for an additional 30 calendar days pending identification of a suspect, but in no case will the reporting be delayed more than 60 calendar days after the date of initial detection. The phrase “initial detection” does not mean the moment a transaction is highlighted for review. The 30-day (or 60-day) period begins when an appropriate review is conducted and a determination is made that the transaction under review is “suspicious” within the meaning of the SAR requirements. A review must be initiated promptly upon identification of unusual activity that warrants investigation.

We will retain copies of any SAR-SF filed and the original or business record equivalent of any supporting documentation for five years from the date of filing the SAR-SF. We will identify and maintain supporting documentation and make such information available to FinCEN, any other appropriate law enforcement agencies, federal or state securities regulators or SROs upon request.

We will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the BSA regulations. We understand that anyone who is subpoenaed or required to disclose a SAR-SF or the information contained in the SAR-SF will, except where disclosure is requested by FinCEN, the SEC, or another appropriate law enforcement or regulatory agency, or an SRO registered with the SEC, decline to produce the SAR-SF or to provide any information that would disclose that a SAR-SF was prepared or filed. We will notify FinCEN of any such request and our response.

Rules: 31 C.F.R. §103.19, FINRA Rule 3310(a).

Resources: [FinCEN’s Web site](#) contains additional information, including information on the [BSA E-Filing System](#), the [SAR-SF Form](#) (fill-in version), and the biannual [SAR Activity Reviews and SAR Bulletins](#), which discuss trends in suspicious reporting and give helpful tips. [SAR Activity Review, Issue 10 \(May 2006\)](#) (documentation of decision not to file a SAR; grand jury subpoenas and suspicious activity reporting, and commencement of 30-day time period to file a SAR); [FinCEN SAR Narrative Guidance Package \(11/2003\)](#), [FinCEN Suggestions for Addressing Common Errors Noted in Suspicious Activity Reporting \(10/10/2007\)](#); [NTM 02-21](#); [NTM 02-47](#).

b) Currency Transaction Reports

Requirement. A firm must file a currency transaction report (CTR) for each deposit, withdrawal, exchange of currency, or other payment or transfer by, through or to F&C that involves a transaction in currency of more than \$10,000 or for multiple transactions in currency of more than \$10,000 when a financial institution knows that the transactions are by or on behalf of the same person during any one business day, unless the transaction is subject to certain exemptions. “Currency” is defined as “coin and paper money of the United States or of any other country” that is “customarily used and accepted as a medium of exchange in the country of issuance.” Currency includes U.S. silver certificates, U.S. notes, Federal Reserve notes, and official foreign bank notes that are customarily used and accepted as a medium of exchange in a foreign country.

Policy. F&C prohibits transactions involving currency and has procedures to prevent such transactions:.

Procedure. If we discover such transactions have occurred, we will file with FinCEN CTRs for currency transactions that exceed \$10,000. Also, we will treat multiple transactions involving currency as a single transaction for purposes of determining whether to file a CTR if they total more than \$10,000 and are made by or on behalf of the same person during any one business day. We will use the [CTR Form](#) provided on FinCEN’s Web site.

Rules: 31 C.F.R. §§103.11, 103.22.

Resource: [BSA E-Filing System](#).

c) Currency and Monetary Instrument Transportation Reports

Requirement. A currency and monetary instrument transportation report (CMIR) must be filed whenever more than \$10,000 in currency or other monetary instruments is physically transported, mailed or shipped into or from the United States. A CMIR also must be filed whenever a person receives more than \$10,000 in currency or other monetary instruments that has been physically transported, mailed or shipped from outside the United States and a CMIR has not already been filed with respect to the currency or other monetary instruments received. A CMIR is not required to be filed by a securities broker-dealer mailing or shipping currency or other monetary instruments through the postal service or by common carrier. “Monetary instruments” include the following: currency (defined above); traveler's checks in any form; all negotiable instruments (including personal and business checks, official bank checks, cashier's checks, third-party checks, promissory notes and money orders) that are either in bearer form, endorsed without restriction, made out to a fictitious payee or otherwise in such form that title passes upon delivery; incomplete negotiable instruments that are signed but

omit the payee's name; and securities or stock in bearer form or otherwise in such form that title passes upon delivery.

Policy. Our firm prohibits both the receipt of currency or other monetary instruments that have been transported, mailed or shipped to us from outside of the United States, and the physical transportation, mailing or shipment of currency or other monetary instruments by any means other than through the postal service or by common carrier.

Procedure. *We will file a CMIR with the Commissioner of Customs if we discover that we have received or caused or attempted to receive from outside of the U.S. currency or other monetary instruments in an aggregate amount exceeding \$10,000 at one time (on one calendar day or, if for the purposes of evading reporting requirements, on one or more days). We will also file a CMIR if we discover that we have physically transported, mailed or shipped or caused or attempted to physically transport, mail or ship by any means other than through the postal service or by common carrier currency or other monetary instruments of more than \$10,000 at one time (on one calendar day or, if for the purpose of evading the reporting requirements, on one or more days). We will use the [CMIR Form](#) provided on FinCEN's Web site.*

Rules: 31 C.F.R. §§103.11, 103.23.

d) Foreign Bank and Financial Accounts Reports

Requirement. The regulations under the BSA require broker-dealers to report and keep records related to any financial interest in, or signature authority over, a bank account, securities account or other financial account that F&C has in a foreign country in which the aggregate value of any accounts exceed \$10,000. Foreign bank and financial accounts reports (FBARs) must be filed with the Commissioner of the IRS on or before June 30th of each calendar year for the previous year in which such accounts exist.

Policy. F&C will file a FBAR with the IRS for any financial accounts of more than \$10,000 that we hold, or for which we have signature or other authority over, in a foreign country.

Procedure. *We will use the [FBAR Form](#) provided on the IRS's Web site.*

Rule: 31 C.F.R. §103.24.

Resource: [FBAR Form](#).

e) Monetary Instrument Purchases

Requirement. No financial institution may issue or sell a bank check or draft, cashier's check, money order or traveler's check for \$3,000 to \$10,000 inclusive in currency unless

it obtains and records certain information when issuing or selling one or more of these instruments to any individual purchaser.

Policy. If F&C issues or sells one or more of these instruments to any individual purchaser in excess of \$10,000 will also need to file a CTR.

Procedure. *If we issue or sell a bank check or draft, cashier's check, money order or traveler's check in the amounts of \$3,000 to \$10,000 inclusive, we will maintain records of the following information:*

If the purchaser has a deposit account with us:

- (i) (A) *the name of the purchaser;*
- (B) *the date of purchase;*
- (C) *the type(s) of instrument(s) purchased;*
- (D) *the serial number(s) of each of the instrument(s) purchased; and*
- (E) *the amount in dollars of each of the instrument(s) purchased.*
- (ii) *In addition, we must verify that the individual is a deposit accountholder or must verify the individual's identity. Verification may be either through a signature card or other file or record provided the deposit accountholder's name and address were verified previously and that information was recorded on the signature card or other file or record; or by examination of a document which is normally acceptable as a means of identification when cashing checks for nondepositors and which contains the name and address of the purchaser. If the deposit accountholder's identity has not been verified previously, we shall verify the deposit accountholder's identity by examination of a document which is normally acceptable within the community as a means of identification when cashing checks for nondepositors and which contains the name and address of the purchaser, and shall record the specific identifying information (e.g., driver's license number and state of issuance).*

If the purchaser does not have a deposit account with us:

- (i) (A) *the name and address of the purchaser;*
- (B) *the Social Security number of the purchaser, or if the purchaser is an alien and does not have a Social Security number, the alien identification number;*
- (C) *the date of birth of the purchaser;*
- (D) *the date of purchase;*
- (E) *the type(s) of instrument(s) purchased;*
- (F) *the serial number(s) of the instrument(s) purchased; and*
- (G) *the amount in dollars of each of the instrument(s) purchased.*
- (ii) *In addition, we shall verify the purchaser's name and address by examination of a*

document which is normally acceptable within the community as a means of identification when cashing checks for nondepositors and which contains the name and address of the purchaser, and shall record the specific identifying information (e.g., driver's license number and state of issuance).

Contemporaneous purchases of the same or different types of instruments totaling \$3,000 or more shall be treated as one purchase. Multiple purchases during one business day totaling \$3,000 or more shall be treated as one purchase if an individual employee, director, officer or partner of the [Name of Firm] has knowledge that these purchases have occurred.

We shall keep records required to be kept for a period of five years, and such records shall be made available to the federal and state authorities or SROs upon request at any time.

Rule: 31 C.F.R. § 103.29. See also 31 C.F.R. 103.22(b).

Resources: 52 Fed. Reg. 52250 (October 17, 1994) (Final Rule Amendments to BSA Regulations Relating to Identification Required to Purchase Bank Checks and Drafts, Cashier's Checks, Money Orders, and Traveler's Checks).

f) Funds Transmittals of \$3,000 or More Under the Travel Rule

Procedure. When we are the transmittor's financial institution in funds of \$3,000 or more, we will retain either the original or a copy (e.g., microfilm, electronic record) of the transmittal order. We will also record on the transmittal order the following information: (1) the name and address of the transmittor; (2) if the payment is ordered from an account, the account number; (3) the amount of the transmittal order; (4) the execution date of the transmittal order; and (5) the identity of the recipient's financial institution. In addition, we will include on the transmittal order as many of the following items of information as are received with the transmittal order: (1) the name and address of the recipient; (2) the account number of the recipient; (3) any other specific identifier of the recipient; and (4) any form relating to the transmittal of funds that is completed or signed by the person placing the transmittal order.

We will also verify the identity of the person placing the transmittal order (if we are the transmitting firm), provided the transmittal order is placed in person and the transmittor is not an established customer of F&C (i.e., a customer of F&C who has not previously maintained an account with us or for whom we have not obtained and maintained a file with the customer's name, address, taxpayer identification number, or, if none, alien identification number or passport number and country of issuance). If a transmittor or recipient is conducting business in person, we will obtain: (1) the person's name and address; (2) the type of identification reviewed and the number of the identification document (e.g., driver's license); and (3) the person's taxpayer identification number

(e.g., Social Security or employer identification number) or, if none, alien identification number or passport number and country of issuance, or a notation in the record the lack thereof. If a transmitter or recipient is not conducting business in person, we shall obtain the person's name, address, and a copy or record of the method of payment (e.g., check or credit card transaction). In the case of transmitters only, we shall also obtain the transmitter's taxpayer identification number (e.g., Social Security or employer identification number) or, if none, alien identification number or passport number and country of issuance, or a notation in the record of the lack thereof. In the case of recipients only, we shall obtain the name and address of the person to which the transmittal was sent.

Rule: 31 C.F.R. §103.33(f) and (g).

3.12. AML Record Keeping

Requirement. Firms must establish procedures to maintain all applicable AML program records and reviews

Policy. F&C will establish procedures to maintain its AML program records and reviews including records required to be kept as part of F&C's Investor Identification Program (IIP).

Procedure.

- *SAR Maintenance and Confidentiality*

F&C will hold SARs and any supporting documentation confidential. F&C will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a SAR. F&C will deny any subpoena requests for SARs or SAR information and immediately tell FinCEN of any such subpoena F&C receives. F&C will segregate SAR filings and copies of supporting documentation from other firm books and records to avoid disclosing SAR filings. F&C's AML Compliance Officer will handle all subpoenas or other requests for SARs. In the event F&C's AML Compliance Officer is not in the office the secondary contact is F&C's FinOps. F&C will share information with F&C's clearing broker about suspicious investments for determining when a SAR should be filed. As mentioned earlier, F&C may share a copy of the filed SAR – unless it would be inappropriate to do so under the circumstances, such as where F&C files a SAR concerning the clearing broker or its employees.

Rules: 31 C.F.R. §103.19(e); 67 Fed. Reg. 44048-44054 (July 1, 2002).

Resources: NTM 02-47.

- *Responsibility for AML Records and SAR Filing*

F&C's AML Compliance Officer and his or her designee will be responsible to ensure that AML records are maintained properly and that SARs are filed as required. Likewise, the AML Compliance Officer will be responsible for maintaining copies of records used to identify investors and verify investor identification. Copies of all records will be maintained in the FinOps office, which will be readily available to the AML Compliance Officer.

[See: <http://www.finra.org/Industry/Regulation/Notices/2002/p003703>, page 14.]

Rules: FINRA Rule 3310; 31 C.F.R. § 103.38, Exchange Act Rule 17a-8.

c) Records Required

As part of F&C's AML program, F&C will create and maintain a records retention schedule, SARs, CTRs, CMIRs, FBARs, and relevant documentation on investor identity and verification (See Section 4.c. above), and funds transfers and transmittals as well as any records related to investors listed on the OFAC list. F&C will maintain SARs and their accompanying documentation for at least five years. Other documents will be kept according to existing BSA and other record keeping requirements, including certain SEC rules that require six-year retention.

Rules: FINRA Rule 3310; 31 C.F.R. §10333; 31 C.F.R. §103.35(b).

3.13. Clearing/Introducing Firm Relationships

Requirement. Firms are required to define how they and their clearing firm will comply with AML Rules.

Policy. F&C will work closely with its clearing firm to comply with AML Rules. And detect money laundering.

Procedure. *We will exchange information, records, data and exception reports as necessary to comply with our contractual obligations and with AML laws. Both our firm and our clearing firm have filed (and kept updated) the necessary annual certifications for such information sharing, which can be found on [FinCEN's Web site](#). As a general matter, we will obtain and use certain exception reports offered by our clearing firm in order to monitor customer activity and we will provide our clearing firm with proper customer identification and due diligence information as required to successfully monitor customer transactions. We have discussed how each firm will apportion customer and transaction functions and how we will share information and set forth our understanding in a*

written document. We understand that the apportionment of functions will not relieve either of us from our independent obligation to comply with AML laws, except as specifically allowed under the BSA and its implementing regulations.

Rules: 31 CFR 103.110; FINRA Rule 3310, NASD Rule 3230.

Resources: [FIN-2006-G003: Frequently Asked Questions: Foreign Bank Recertifications under 31 C.F.R. § 103.77 \(February 3, 2006\)](#).

3.14. AML Training Programs

Requirement. Firms are required to adopt an AML Training Program

Policy. F&C will develop ongoing employee training under the leadership of the AML Compliance Person and senior management. Our training will occur on at least an annual basis. It will be based on our firm's size, its customer base, and its resources and be updated as necessary to reflect any new developments in the law.

Procedure. *F&C's AML Compliance Officer and senior management review F&C's AML program and provide training on an annual basis during F&C's annual compliance meeting. In addition, F&C reviews procedures and changes to industry regulations during a quarterly meeting of all FINRA associated persons. F&C's program is based on F&C's size, investor base, and resources.*

F&C's training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in F&C's compliance efforts and how to perform them; F&C's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the BSA.

Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos. F&C maintains records to show the persons trained, the dates, and the subject matter of their training.

F&C will review F&C's operations to see if certain employees, such as those in compliance, and corporate security, require specialized additional training. F&C's written procedures will be updated to reflect any such changes.

Rules: FINRA Rule 3310.

Resources: NTM 02-21, FinCEN SAR Narrative Guidance Package (11/2003). FinCEN Suggestions for Addressing Common Errors Noted in Suspicious Activity Reporting (10/10/2007).

3.15. Program to Test AML Program

Requirement. Firms are required to adopt an independent testing function to assess its AML compliance program.

Policy. F&C will adopt a testing function to assess its AML Compliance Program annually.

Procedure. *The AMLCO will determine whether testing will be conducted internally by personnel or an outside consultant. The decision will depend on F&C's size and resources. Independent testing will be performed annually (on a calendar year basis). F&C will undertake more frequent testing than required if circumstances warrant.*

As a general matter, independent testing of our firm's AML compliance program will include, at a minimum: (1) evaluating the overall integrity and effectiveness of our firm's AML compliance program; (2) evaluating our firm's procedures for BSA reporting and recordkeeping requirements; (3) evaluating the implementation and maintenance of our firm's CIP; (4) evaluating our firm's customer due diligence requirements; (5) evaluating our firm's transactions, with an emphasis on high-risk areas; (6) evaluating the adequacy of our firm's staff training program; (7) evaluating our firm's systems, whether automated or manual, for identifying suspicious activity; (8) evaluating our firm's system for reporting suspicious activity; (9) evaluating our firm's policy for reviewing accounts that generate multiple SAR-SF filings; and (10) evaluating our firm's response to previously identified deficiencies.

Rules: FINRA Rule 3310; 31 C.F.R. § 103.120.

Resource: NTM 06-07.

After we have completed the independent testing, staff will report its findings to senior management. We will promptly address each of the resulting recommendations and keep a record of how each noted deficiency was resolved.

Rules: FINRA Rule 3310; 31 C.F.R. §§ 103.19, 103.120.

Monitoring Employee Conduct and Accounts

Requirement. Firms are required to define how they will monitor employee accounts for potential signs of money laundering.

Policy. F&C will subject employee and associated persons outside trading accounts to the same AML procedures as F&C's customers, under the supervision of the AML Compliance Officer or other qualified individual designated at his/her discretion. F&C will also

review the AML performance of supervisors, as part of their annual performance review. The AML Compliance Officer's accounts will be reviewed by F&C's FinOps, if applicable.

Rules: FINRA Rule 3310; 31 C.F.R. § 103.120.

3.16. Confidential Reporting of AML Non-Compliance

Requirement. Firms are required to develop policies and procedures to define how reporting of AML non-compliance will be conducted confidentially.

Policy. Employees must report any violations of F&C's AML compliance program to the AML Compliance Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to F&C's FinOps. Such reports will be confidential, and the employee will suffer no retaliation for making them.

Rules: FINRA Rule 3310; Section 352 of the PATRIOT Act.

3.17. Additional Areas of Risk

Policy. F&C will review all areas of its business to identify potential money laundering risks that may not be covered in the procedures described above and found none.

3.18. Senior Manager Approval

F&C has reviewed all areas of its business to identify potential money laundering risks that may not be covered in the procedures described above. There are no additional areas of risk identified. Senior management approved this AML program as reasonably designed to achieve and monitor F&C's ongoing compliance with the requirements of the BSA and the implementing regulations under it.

Specific Supervisory Responsibilities

Title: AML Compliance Officer
Location: Minneapolis, MN
Registrations: Series 4, 7, 24, 55, 66, 87
Effective Date: August 20, 2003

RESPONSIBILITIES

- Monitor compliance with F&C's AML program, including the CIP, and help to develop communication and training tools for employees.
- Regularly assist in helping to resolve or address heightened due diligence and "red flag" issues.
- Contact federal law enforcement authorities when required.
- Terminate all correspondent banking relationships with foreign banks when directed to do by the Treasury or US Attorney General within 10 days of the date of the request.
- Review all SAR filings and the frequency of filings for continuous suspicious activity and provide F&C's Board of Directors with a report of such filings on no less than an annual basis.
- Maintain a list of high-risk investors which may require additional due diligence and scrutiny.
- Continue to develop procedures and utilize automated systems whenever possible to monitor trading, wire transfers, and other account activity or, at a minimum, manually review a sufficient amount of account activity to ensure the detection of suspicious activity.
- Maintain all books and records required by the AML rules, for the necessary time period, in a separate location from other broker-dealer books and records.

- Develop, monitor and evaluate ongoing employee and/or registered representative training programs to be administered no less than annually.

4. SEC IDENTITY THEFT RULE

4.1. Introduction

With the continued advances and developments of technology, we as a society have reached an age where it is almost common practice for all manner of personal information to be collected, maintained, transferred and processed through electronic means. This coupled with the increased frequency and reliance on electronic communication has cause an increase in cyber-attacks, which threatens the data integrity of customer private information.

To counteract this growing threat, the federal government issued regulatory guidance on the detection, prevention, and mitigation of identity theft. This section focuses on recognizing potential red flags of identity theft and providing IEs guidance on reporting these red flags.

4.2. Identification of Potential Areas of Risk

As a full service brokerage firm, F&C most conduct an evaluation of potential areas of business that are subject to identity theft risk and then create red flags based on this evaluation. Due to F&C being an introductory brokerage firm, it is likely many of the common threats are mitigated by our clearing firm National Financial Services. However, as an introductory firm, the potential for identity theft can still occur in the following areas:

- Original Account Setup
- Wiring of Funds
- Transferring of Assets
- Closing of Accounts
- Account Information Changes (address and phone number changes)
- Electronic Communications with Customer (email, fax, phone)
- Electronic Trading

4.3. Relevant Red Flags Based On Identified Areas of Risk

Policy. Based on the areas mention above, the firm will look for potential patterns, practices or specific activities indicating the possibility of identity theft in these highlighted areas. As such, IEs and Employees should use the following guidance to assist in

recognizing the possible red flags for identity theft.

Alerts, Notifications, and Warnings from a the Clearing Firm

- During any account setup, IEs and Employees should be monitoring for any of the following items concerning the potential customer:
 - a fraud or active duty alert on a NFS report
 - any notice of credit freeze
 - a notice of address discrepancy
 - any other notifications provided by NFS that could be interpreted as potential identity theft

Suspicious Documents – Documents can offer hints of identity theft:

- identification looks altered or forged
- the person presenting the identification doesn't look like the photo or match the physical description
- information on the identification differs from what the person with identification is telling you or doesn't match a signature card or recent signed document
- an application that looks altered, forged, or torn up and reassembled
- documents that are inconsistent with previous statements or communications
- electronic communication from email addresses not on file

Account Activity

- an account that was inactive for a long period of time suddenly becomes active again
- mail sent to the customer that is returned repeatedly as undeliverable although transactions continue to be conducted in the account
- an account is being used outside of the established patterns
- communication patterns requesting account activity that are outside the norm
 - Content of email doesn't fit the usual pattern of communication
 - How the transaction is requested (email, phone, fax, etc.) does not fit the customers typical pattern
- Unconventional wire or account transfer requests

Personal Identifying Information

- inconsistencies in the information a customer has submitted to you
- bogus address, an address for a mail drop or prison, a phone number that's invalid or one that's associated with an answering service
- an address or telephone number used by several people opening accounts
- a person who omits important contact information and doesn't respond to notices or requests for that information
- a person who can't provide authenticating information beyond what's generally

- available from a wallet or credit report (fail identity challenge questions)
- constant changing of address or changing other account information shortly after a previous change

4.4. Prevention and Mitigation of Identity Theft

Policy. When a red flag is spotted, an IE or Employee should be prepared to respond appropriately. The proper response is to contact F&C's Compliance Department to report the potential identity theft; the Compliance Department will then determine the proper course of action. The course of action may or may not require direct action from the IE or Employee and could include actions like:

- heightened monitoring of the account for evidence of identity theft
- contacting the customer to confirm or verify information
- changing passwords, security codes, or other ways to access the account
- closing the existing account
- reopening the account with a new account number
- notifying law enforcement
- determining that no response is warranted under the circumstances offered

4.5. Adjustments for Changes in Technology

Policy. As new achievements in technology occur, it is possible that other avenues for identity theft will also develop. As such, F&C will continue to periodically update its program. The CCO in conjunction with his/her yearly review of F&C's written supervisory procedures will also add any new methods to detect, prevent, and mitigate identity theft.

4.6. Implementation of F&C Identity Theft Policy

Procedure. *The CCO will be responsible for initial implementation and training of the Identity Theft Policy. Each Branch Manager and/or Department Director will then be responsible for supervising their departments for potential red flags. As changes in the policy occur, the CCO will provide additional training on a discretionary basis.*

Specific Supervisory Responsibilities

Title: CCO
Location: Minneapolis, MN
Registrations: Series 4, 7, 24, 55, 63, 66, 87
Effective Date: July 16, 2014

RESPONSIBILITIES

- Monitor compliance with F&C's Identity Theft Protection Program and help to develop communication and training tools for employees.
- Regularly assist in helping to resolve or address heightened due diligence and "red flag" issues.
- Contact federal law enforcement authorities when required.
- Coordinate with Branch Managers and Department Directors to ensure IEs and Employees actively monitoring for "red flags"
- Continue to develop procedures and utilize automated systems whenever possible to monitor for identity theft.

5. DEALING WITH CUSTOMERS (INVESTORS)/OTHER ASSOCIATED PERSON ACTIVITY

5.1. Suitability of Recommendations

Requirement. FINRA Rule 2111 (Suitability) requires that a firm or associated person "have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile."

Further FINRA Rule 2111.05 specifies the three main Suitability Obligation components:

1. Reasonable-basis obligation requires a member or associated person to have a reasonable basis, based on reasonable diligence, that a recommendation is suitable for some investors
2. Customer-specific obligation requires that a member or associated person have a reasonable basis to believe that the recommendation is suitable for a particular customer based on the investment profile of the customer
3. Quantitative Suitability requires a member or associated person who has actual or de facto control over a customer account have a reasonable basis for believing that a series of recommended transactions, even if suitable when viewed in isolation, are not excessive or unsuitable for the customer when taken together in light of the customer's investment provide.

In addition Rule 2111.06 prohibits a member or associated person from recommending a transaction or investment strategy involving a security or securities or the continuing purchase of a security or securities or use of an investment strategy involving a security or securities unless the member or associated person has a reasonable basis to believe that the customer has the financial ability to meet such a commitment.

Policy. F&C requires that it and its associated persons "have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence by the associated person to ascertain the customer's investment profile.

The rule, for instance, codifies and clarifies the three main suitability obligations that previously had been discussed largely in case law:

- reasonable-basis suitability (a broker must perform reasonable diligence to understand the nature of the recommended security or investment strategy involving a security or securities, as well as the potential risks and rewards, and determine whether the recommendation is suitable for at least some investors based on that understanding);
- customer-specific suitability (a broker must have a reasonable basis to believe that a recommendation of a security or investment strategy involving a security or securities is suitable for the particular customer based on the customer's investment profile); and,
- quantitative suitability (a broker who has control over a customer account must have a reasonable basis to believe that a series of recommended securities transactions are not excessive).

The rule also broadens the explicit list of customer-specific factors that firms and associated persons generally must attempt to obtain and analyze when making recommendations to customers. The rule adds a customer's age, investment experience, time horizon,⁵ liquidity needs⁶ and risk tolerance⁷ to the explicit list of customer-specific factors from the predecessor rule (i.e. , other investments,⁸ financial situation and needs,⁹ tax status,¹⁰ and investment objectives¹¹). These factors generally make up a customer's investment profile.

The rule, moreover, imposes broader obligations on firms and associated persons regarding recommendations of investment strategies involving a security or securities. Not only does the rule now explicitly cover recommended investment strategies involving a security or securities, but it also states that the term "investment strategy" is to be interpreted "broadly" and includes recommendations to "hold" a security or securities. In addition, these hold recommendations need to be documented and may include notes of discussions regarding explicit hold or other strategy recommendations by associated persons and maintained in customer files or the use of a "hold ticket or blotter" that captures hold or other types of strategy recommendations.

In addition, the new rule modifies the institutional-customer exemption by changing the definition of institutional customer and requiring an affirmative indication from the institutional customer of its intention to independently analyze the broker-dealer's recommendations. Finally, FINRA stated that firms generally may use a risk-based approach to documenting compliance with the rule.

F&C's suitability obligation is interpreted by FINRA's suitability rule, "a broker's recommendations must be consistent with his customers' best interests." The suitability requirement that a broker make only those recommendations that are consistent with the customer's best interests prohibits a broker from placing his or her interests ahead of the

customer's interests.

The determination of the existence of a recommendation has always been based on the facts and circumstances of the particular case. That remains true under the new rule. FINRA reiterates, however, that several guiding principles are relevant to determining whether a particular communication could be viewed as a recommendation for purposes of the suitability rule.

Suitability Definition: The "appropriateness" of a recommended transaction when considering the risks associated with the transaction, and the investor's financial situation (net worth, income, assets etc.). Unsuitable recommendations occur when, based upon the facts disclosed about the investor's affairs, a F&C registered representative recommends certain transactions without having reasonable grounds for believing that the recommended transactions were suitable for that investor's financial situation.

Procedure. According to the Suitability Interpretation, F&C must determine, based on the information available to it, the investor's capability to absorb a complete loss of their investment. Where a customer has delegated decision-making authority to an agent, such as an investment advisor or a bank trust department, this Interpretation shall be applied to the agent.

Each registered representative will be responsible for assuring transactions are suitable for the investor by obtaining sufficient, according to F&C's business model, background information concerning the investor's financial resources in order to make such a determination. Further, the registered representative must update the investor's financial information and reconfirm their accredited investor status before introducing a subsequent client transaction to the investor. In addition, each registered representative should document explicit hold or other strategy recommendations in notes of discussions and/or use of a "hold recommendations blotter".

F&C requires registered representatives to distribute a Customer Suitability Questionnaire and Customer Identification Data Form to potential investors in which a potential investor shall describe their financial situation and shall attest to understanding the potential risks of such an investment. The CCO (or his designee) will be responsible for overseeing Branch Managers as they are reviewing and approving investments and will compare investor information against the client transaction to assure suitability. Any questionable investments identified by the Branch Manager will be brought to the attention of the registered representative for an explanation. If further investigation is warranted, the CCO will contact the investor directly. Documentation of any questionable investments and resolution will be maintained in F&C's compliance files.

Policy. FINRA Rule 2111(b) provides an exemption to customer-specific suitability for recommendations to institutional customers under certain circumstances. The new exemption harmonizes the definition of institutional customer in the suitability rule with the more common definition of "institutional account" in NASD Rule 3110(c)(4). Beyond the definitional requirements, the exemption's main focus is whether the broker has a reasonable basis to believe the customer is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies, and whether the institutional customer affirmatively acknowledges that it is exercising independent judgment.

In regard to an institutional investor, a firm that satisfies the conditions of the exemption fulfills its customer-specific obligation, but not its reasonable-basis and quantitative obligations under the suitability rule. FINRA believes that, even when institutional customers are involved, it is crucial that brokers understand the securities they recommend and that those securities are appropriate for at least some investors. FINRA also believes that it is important that a firm not recommend an unsuitable number of transactions in those circumstances where it has control over the account. FINRA emphasizes, however, that quantitative suitability generally would apply only with regard to that portion of an institutional customer's portfolio that F&C controls and only with regard to F&C's recommended transactions

Procedure. *F&C 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.*

In order to be able to determine the suitability of a client transaction for any investor, including both institutional and non-institutional investors, F&C shall obtain sufficient background information, according F&C's business model, concerning the investor's financial resources in order to make such a determination. F&C must be satisfied that the investor fully understands the risks involved and is able to take those risks.

NASD Rule 2310(a) applies to all accounts, including institutional accounts as defined by FINRA Rule 3110(c)(4). In other words, F&C shall have reasonable grounds, after reasonable investigation, for believing that a recommendation is suitable for F&C's investors regardless of whether the investor is an institution or not. Being an accredited investor is just one factor to be considered in the course of a suitability analysis. F&C must make reasonable efforts to gather and analyze information about the investor's financial situation to enable the suitability determination.

NASD Rule 2310(b) applies to all entities with total assets of less than \$50 million, except banks, savings and loans, insurance companies, registered investment companies, and registered investment advisors (together, "financial institutions"). In other words, a

member must make reasonable efforts to obtain the customer information required by Section 2(b) before executing a transaction for a non-institutional customer.

5.2. Unauthorized Trading

Requirement. Unauthorized Trading is defined as, "Effecting the execution of a buy or sell transaction in a customer account which was not agreed to by the customer (either expressly or implicitly)". The motive for such a transaction is usually the generation of commissions or the concealment of certain activities. The general prohibitions against Unauthorized Transactions include Section 10(b) of the Securities Act of 1934 and Rule 10b-5 there under, and FINRA Rules 2110 and/or 2120.

Policy. F&C does not permit "unauthorized" or "discretionary" trading in any retail accounts. Violation of section 4.2 will result in disciplinary action will determined by the CCO (based on the severity of the violation) and enforced by the Branch Manager for the office the RR is associated.

Procedure. *F&C will monitor for "Unauthorized Trading" through the use of daily, quarterly, and annual transaction blotters in addition to an annual RR review conducted by the Branch Manager. As part of the Annual Review, Branch Managers will be responsible for contacting a number of RR's clients to conduct a customer review call. Part of the customer review call covers "unauthorized trading". In addition to the above monitoring, if F&C has reason or suspicion to believe that "Unauthorized Trading" is occurring the CCO (or his designee) may initiate a separate customer review call or letter beyond what would be done in an annual RR review.*

5.3. Customer (Investor) Funds and Securities

Requirement. F&C is subject to a \$250,000 minimum net capital requirement but does not hold customer funds or securities received in connection with its activities as a broker-dealer.

Policy. All transmittals of funds (e.g., wires or checks, etc.) or securities will be made between customers and F&C's clearing agent or other authorized 3rd party (i.e., a transmittal of securities into an escrow account); from investors to outside entities (e.g., banks, investment companies, etc.); and directly between the client and investors.

Procedure. *F&C does not hold customer funds, all funds received or sent out are submitted directly to the clearing firm.*

5.4. Holding of Customer Mail

Requirement. FINRA rule 3150 “Holding of Customer Mail” states:

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

1 the mem receives written instructions from the customer that include the time period during which the member is requested to hold the customer’s mail. If the requested time period included in the instruction is longer than three consecutive months (including any aggregation of time periods from prior requests), the customer instructions must include an acceptable reason for the request (e.g., safety, security concerns). Convenience is not an acceptable reason for holding mail longer than three months;

2 the member:

a) informs the customer in writing of any alternate methods, such as email or access through the member’s website, that the customer may use to receive or monitor account activity and information; and

b) obtains the customer’s confirmation of receipt of such information; and

3 the member verifies at reasonable intervals that the customer’s instructions still apply.

B) During the time that a member is holding mail for a customer, the member must be able to communicate with the customer in a timely manner to provide important account information (e.g., privacy notices, the SIPC information disclosure required by rule 2266), as necessary.

C) A member holding a customer’s mail pursuant to this Rule 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 of the member in any manner that would violate FINRA rules or the federal securities laws.

Policy. In general the firm will not hold a client’s mail. Clients should submit a change of address to a location or PO Box for receipt of mail. Customer changes of address will be validated by providing notification to the customer at both the old and the new address. All customer address changes must be submitted in writing to Operations, and must be signed by the account holder(s) named on the account. Official notification from the US Postal Service will also be accepted as a valid change request. A customer may also send an e-mail to change his/her address. However, the e-mail address must already be on file as the customers. Operations personnel must also contact the customer via phone to confirm the address change.

Procedure. *The CCO (or his designee) will be responsible for overseeing the implementation of these control procedures by reviewing and approving all changes to customer addresses.*

5.5. Changes in Account Name or Designation or Investment Objectives

Requirement. Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) shall be made unless the change has been authorized by a member or a person(s) designated under the provisions of FINRA rules. Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member.

Policy. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in [SEC Rule 17a-4](#). For purposes of this paragraph (j), a person(s) designated under the provisions of FINRA rules to approve account name or designation changes must pass a qualifying principal examination appropriate to the business of F&C.

Procedure. Customer account name changes or changes of designation will be validated by providing notification to and receiving verification from the customer. Changes to customer objectives may be changed verbally by the customer but will be validated by required written notification via mail to the customer. If investment objective changes are made verbally, the RR will be required to document the respective changes to the customer's suitability profile by way of the Suitability Update Form. This form requires the RR signature attesting that the changes were discussed with the customer and the customer is in agreement with any of the changes. The RR submits the form to the Branch Manager (or Principal) who then reviews and signs the form as well, which is retained. Actual changes to the account profile are made by Operations as RR's are not able to directly make changes to the client account profile. The CCO (or his designee) will be responsible for overseeing the implementation of these control procedures.

Finally, the CCO (or his designee) will be responsible for ensuring that supporting documentation of the change and approval of the change is maintained for not less than three years and in an easily-accessible place for the first two years.

5.6. Prohibition Against Guarantees and Other Prohibited Practices

Requirement. FINRA Conduct Rules deal with interaction between member firms, associated persons, and investors. Following is a list of prohibited practices found under

these rules. It should be noted, however, that this list is not necessarily all-inclusive and any activity that may be considered dishonest or suspect may be in violation of Conduct Rule 2110 - Standards of Commercial Honor and Principles of Trade, which states: “A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade”.

Policy. F&C will comply with the Standards of Commercial Honor and Principles of Trade.

Procedure. *F&C and its registered personnel are prohibited from guaranteeing a customer against a loss in any client transaction. Branch Managers are responsible for identifying prohibited guarantees in correspondence or other written communications with investors.*

No registered person may use F&C in any manner that could be reasonably misinterpreted to indicate a tie-in between F&C and any outside activity of the registered person. Registered personnel may not give tax advice to investors since F&C is not engaged in the practice of providing tax advice unless properly qualified and authorized by F&C to do so. Investors requiring specific tax guidance should be referred to their personal tax advisers.

Registered personnel are prohibited from rebating anyone, directly or indirectly, any commission or compensation received.

Registered personnel may not make payments to investors of any kind to resolve an error or investor complaint. Errors and complaints must be brought to the attention of the representative’s Branch Manager.

Registered personnel are not permitted, directly or indirectly, to borrow from or lend to investors of F&C

Registered personnel are not permitted to sign documents on behalf of investors, even when doing so is meant to accommodate a customer’s request. Investor signatures must be original by the investor on all documents.

No registered person may spread any rumors or convey misinformation that they know to be false or misleading.

No registered person may offer or solicit explicit inducements to or from other representatives of other institutions or foreign governmental or political officials to obtain business. Entertainment and gifts in reasonable amounts are not included in this prohibition.

No registered person may engage in activities that require registration (selling securities, soliciting accounts, trading, etc.) unless registered in the appropriate capacities.

Registered personnel are prohibited from effecting transactions based on knowledge of material, non-public information. F&C has established reasonable procedures to detect and prevent insider trading. Refer to the insider trading section of this manual for further information.

Registered personnel may not share directly or indirectly in the profits or losses of a customer (with the exception of performance-based fees specifically permitted under the rules governing investment adviser and other permitted arrangements).

Registered and non-registered personnel are prohibited from acting on, passing on, or discussing any inside information. Any knowledge of such information must be brought to the attention of the designated supervisor and CCO.

Registered personnel are prohibited from entering into financial arrangements with investors or clients, i.e. sharing in profits or losses, sharing in commissions, rebating commissions, etc.

Registered personnel will make no arrangements to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner, or his agent, at the agreed upon time at essentially the same terms.

Registered personnel (specifically RRs) are not permitted to “front-run” their clients. Specifically, RRs may not trade in front of their clients on the same day and receive a preferential price. If the RR receives a preferential price and traded in front of their client then the client will receive the preferential price based on the amount of shares involved. The RR may receive a preferential price if he/she trades after the clients order.

F&C will attempt to ensure these prohibitions are adhered to through diligent review of client transactions and investor documentation, annual certifications by associated personnel that such activity has not taken place, and diligent supervision of all associated persons.

5.7. Gifts and Gratuities

Requirement. FINRA Conduct Rule 3060 prohibits persons associated with a member from directly or indirectly giving or permitting anything to be given of value (a gift of

any kind is considered a gratuity) in excess of one hundred dollars (\$100.00) per year to any person, principal, proprietor, employee, agent or representative of another member where such payment or gratuity is in relation to the business of the employer of the recipient.

Policy. in connection with the sale and distribution of a public offering of securities, neither F&C or any person associated with F&C shall directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as provided in this provision. Non-cash compensation arrangements are limited to the following:

(A) Gifts that do not exceed an annual amount per person fixed periodically by the Board of Governors currently set at \$100 and are not preconditioned on achievement of a sales target.

(B) An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target.

(C) Payment or reimbursement by officers in connection with meetings held by an officer or by F&C for the purpose of training or educating associated persons of a member, provided that:

(i) associated persons obtain the member's prior approval to attend the meeting and attendance by a member's associated persons is not conditioned by the member on the achievement of a sales target or any other incentives pursuant to a non-cash compensation arrangement permitted by subparagraph (d)(2)(D);

(ii) the location is appropriate to the purpose of the meeting, which shall mean an office of the issuer or affiliate thereof, the office of the member, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings;

(iii) the payment or reimbursement is not applied to the expenses of guests of the associated person; and

(iv) the payment or reimbursement by the issuer or affiliate of the issuer is not conditioned by the issuer or an affiliate of the issuer on the achievement of a sales target or any other non-cash compensation arrangement permitted by subparagraph (d)(2)(D).

(D) Non-cash compensation arrangements between a member and its associated persons or a company that controls a member company and the member's associated persons, provided that no unaffiliated non-member company or other unaffiliated member directly or indirectly participates in the member's or non-member's organization of a

permissible non-cash compensation arrangement; and,

(E) Contributions by a non-member company or other member to a non-cash compensation arrangement between a member and its associated persons, provided that the arrangement meets the criteria in subparagraph (d)(2)(D).

***Procedure.** F&C shall maintain records of all non-cash compensation received by the member or its associated persons in arrangements permitted by subparagraphs (d)(2)(C)-(E). The records shall include: the names of the officers, non-members or other members making the non-cash compensation contributions; the names of the associated persons participating in the arrangements; the nature and value of non-cash compensation received; the location of training and education meetings; and any other information that proves compliance by the member and its associated persons with subparagraph (d)(2)(C)-(E).*

All associated persons will be required to record any and all gifts and/or gratuities received from or given to any officer on a log maintained at the main office of F&C. Failure to adhere to this policy may result in a fine or immediate termination at the discretion of the CCO. The log will be reviewed no less than annually by the CCO. The CCO will be responsible for reviewing expense reimbursements submitted to determine if any potential gifts and/or gratuities have occurred.

5.8. Accounts Maintained for Employees of Other Broker-Dealers

Requirement. FINRA Rule 3050 imposes certain requirements on a member ("executing member") that maintains an account for a person associated with another member ("employer-member") or an account over which such person has discretionary authority. Conduct Rule 3050 also requires associated persons to make certain disclosures to their employers regarding an account or order at another FINRA member or non-FINRA financial institution. As of June 1, 1991, associated persons had to make certain notifications in writing. Exempt from these requirements are transactions in unit investment trusts and variable contracts or redeemable securities registered under the Investment Company Act of 1940, or accounts limited to transactions in these securities.

Policy. As the executing member, F&C must use reasonable diligence to determine that executing a transaction for that account will not adversely affect the employer-member. An executing member can satisfy this obligation by making the following disclosures:

- Notifying the employer in writing, prior to executing a transaction, that an account is being opened or maintained for an associated person of that employer.
- Upon written request by the employer, transmitting duplicate copies of confirmations, statements or other information relative to the account.

- Informing the associated person that the notice and information indicated above will be provided to his/ her employer.

Although F&C is not required by the rule to segregate the accounts of employees of other members, the executing member must have some means of identifying these accounts. F&C will maintain copies of its correspondence with the employer-member or other records to demonstrate that notice was given and duplicate confirmations or statements were sent upon request.

***Procedure.** F&C's CCO shall be responsible for notifying the employer in writing, prior to executing a transaction, that an account is being opened or maintained for an associated person of that employer. Upon written request by the employer, F&C will transmit duplicate copies of confirmations, statements or other information relative to the account. F&C will advise the associated person that the notice and information indicated above is being provided to his/ her employer.*

5.9. Employee Accounts Maintained at Other Broker-dealers

Requirement. Associated persons, employees and 5%+ Members/Owners of F&C are required to provide written notice to F&C, prior to opening an account or placing an initial securities order with another FINRA member. Upon being so notified, F&C will notify the executing member of the registered representative's association with F&C and will request, in writing, copies of all confirmations of transactions and account statements for the registered and/or associated person. F&C will review these confirmations and statements upon receipt to ensure no questionable activity has occurred.

If the account was established prior to the association of the person with F&C, the associated person shall notify F&C at the time of hire. Further, on at least an annual basis, all associated persons shall complete a questionnaire certifying they have disclosed the existence of all personal securities accounts.

The above obligations also apply to securities accounts of associated persons held with an Investment Adviser, bank, or other financial institution that are not FINRA members.

The provisions of this section will not apply to transactions in unit investment trusts, variable contracts and redeemable securities of companies registered under the Investment Company Act of 1940, or to accounts that are limited to transactions in such securities.

Policy. It is the general policy of F&C to encourage employees to maintain their personal securities accounts at F&C. To encourage employees to follow this policy, F&C has initiated a discretionary fee of \$100 dollars a quarter to cover the cost of monitoring

employee's outside securities accounts. All outside securities accounts, including individual and joint accounts, spouse accounts, and minor children accounts must be disclosed to the CCO or his or her designee. F&C will then request duplicate confirmations and statements from the other Broker/Dealer carrying the employee accounts. Any employee desiring to maintain an outside securities account must complete the Disclosure of Outside Securities Accounts form available from Compliance, which will keep a record of each such request in the employee's file.

Procedure. *Compliance or the employee's Branch Manager shall be responsible for reviewing the account statements and trade confirmations for all registered and associated persons, including 5% Members/Owners of F&C, whose accounts are being held at another broker-dealer or other entity as described above other than F&C. These confirmations and statements will be reviewed for possible anomalies including front-running or conflicts of interest. At the direction of F&C's CCO, the Branch Manager will be required to obtain the necessary disclosures from all associated persons on an annual basis that he/she has disclosed all securities accounts to F&C.*

5.10. Insider Trading

Requirement. Employees are strictly prohibited from effecting transactions based on knowledge of material, non-public information. F&C has established reasonable procedures to detect and prevent insider trading. The section titled "Insider Trading" includes F&C's policy, and the section titled "Chinese Wall Procedures" details F&C's procedures for protecting the confidentiality of inside information known to Firm personnel.

5.11. Sharing in Accounts

Requirement. Employees, RR, associated persons, are strictly prohibited from directly or indirectly sharing in the profits or losses of a customer's account. Because F&C does not directly conduct advisory business, any exceptions governing investment advisors will not be excepted.

Policy. F&C and its employees may not share directly or indirectly in the profits or losses of a customer's account (with the exception of Firm approved performance-based fees specifically permitted under rules governing investment adviser and other permitted arrangements). F&C does not permit employees to share in customer accounts unless:

- the employee is a disclosed owner of the account, and,
- the employee shares in losses and gains only in proportion to the employee's monetary contribution to the account.

Accounts where the employee is a joint owner with individuals who are not immediate family members require the approval of Compliance prior to opening the account.

5.12. Restrictions on the Purchase and Sale of Initial Equity Public Offerings (IPOs)

Requirement. FINRA Rule 5130 generally prohibits a member from selling a new issue to any account in which a "Restricted Person" has a beneficial interest. "Restricted Persons" are defined as Members or other Broker/Dealers, Broker/Dealer Personnel (and their immediate family members), Finders and Fiduciaries, Portfolio Managers, and Persons Owning a Broker/Dealer.

While generally a "Restricted Person" would be limited from participating in a IPO, FINRA Rule 5130 does provide for some exceptions. The following entities/individuals would fall under the 5130 exceptions:

1. An investment company registered under the Investment Company Act of 1940.
2. A common trust fund or similar fund as described in Section 3(a)(12)(A)(iii) of the Securities Exchange Act of 1934, provided that: (i) the fund has investments from 1,000 or more accounts, and (ii) the fund does not limit beneficial interests in the fund principally to trust accounts of restricted persons.
3. An insurance company general, separate or investment account, provided: (i) the account is funded by premiums from 1,000 or more policyholders or, if a general account, the insurance company has 1,000 or more policyholders, and (ii) the insurance company does not limit the policyholders whose premiums are used to fund the account principally to restricted persons, or if a general account, the insurance company does not limit its policyholders principally to restricted persons.
4. An account, including a fund, limited partnership, joint back office broker-dealer or other entity, if the beneficial interests of restricted persons do not exceed in the aggregate 10% of the account.
5. A publicly traded entity (other than a broker-dealer authorized to engage in the public offering of new issues either as a selling group member or underwriter, or an affiliate of such a broker-dealer) that is: (i) listed on a U.S. national securities exchange, (ii) traded on the NASDAQ National Market, or (iii) a non-U.S. issuer whose securities meet the quantitative designation criteria for listing on a national

securities exchange or trading on the NASDAQ National Market.

6. An investment company organized under the laws of a non-U.S. jurisdiction, provided that: (i) the investment company is listed on a non-U.S. exchange or authorized for sale to the public by a non-U.S. regulatory authority, **and** (ii) no person owning 5% or more of the shares of the investment company is a restricted person.
7. An ERISA benefits plan that is qualified under Section 401(1) of the Internal Revenue Code; provided that the plan is not sponsored solely by a broker-dealer.
8. A state or municipal government benefits plan that is subject to state or municipal regulation.
9. A tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code.
10. A church plan under Section 414(e) of the Internal Revenue Code.

Policy. F&C prohibits its registered representative from purchasing IPOs.

Procedure. *F&C's outright restriction extends to employees of other broker-dealers other than those with limited registrations and whose employer's business is limited to direct participation programs or mutual funds and variable products. These restrictions include any accounts in which the registered representative has a beneficial interest.*

The CCO, or designee will monitor employee accounts to determine that restricted persons do not participate. F&C also requires customers on an annual basis to fill out the "IPO Certification" form. This ensures that individuals are not participating in IPOs when they are restricted persons according to 5130. All exceptions to the rule are noted in the "IPO Certification" form and are reviewed by Compliance.

5.13. Research Restrictions

Policy. Whenever F&C's research department initiates coverage or changes the recommendation on a company's stock, employees and their spouses and minor children are restricted for a period of 24 hours from engaging in transactions in that company's stock that are consistent with the research recommendation. This policy does not apply to research updates or other summaries that do not change the recommendation.

5.14. Restrictions on Personal Accounts of Certain Firm Personnel

Policy. Personnel in certain departments such as research, trading, and investment banking may be subject to specific requirements or restrictions on the trading in their personal accounts. Refer to those sections of the manual for further information.

5.15. Transactions Involving Association and NYSE Amex Employees

Requirement. If a FINRA or NYSE Amex employee establishes an account with a broker-dealer, it shall promptly obtain and implement an instruction from the employee authorizing it to provide duplicate account statements to FINRA. Except for a margin account, broker-dealers will not loan any money or securities to such employees. Finally, broker-dealers will not give anything of more than nominal value to any employee of FINRA or NYSE Amex who has responsibility for a regulatory matter involving that broker-dealer.

Policy. F&C requires all accounts for employees of FINRA, NYSE or AMEX to provide F&C with authorization to provide duplicate account statements to FINRA. F&C will not loan any money or securities to such employees. Finally, neither F&C nor any of its associated persons will give anything of more than nominal value to any employee of FINRA or NYSE Amex who has responsibility for a regulatory matter involving F&C.

5.16. Private Securities Transactions

Requirement. Pursuant to FINRA Rule 3040(e), Private Securities Transactions are defined as "any securities transactions outside the regular course or scope of an associated person's employment with a member." These transactions can generally be grouped into two categories:

1. Transactions in which an associated person sells securities to investors on behalf of another party (for example, as part of a private offering of limited partnership interests, or as an insurance agent selling group variable annuities or group life insurance contracts, without the participation of the individual's employer firm).
2. Transactions in securities owned by an associated person.

Private securities transactions include securities transactions that involve a limited number of purchases or sales and other investment transactions involving associated persons that are outside the course of their association or employment with the member. These private securities transactions may mislead investors or participants into believing the transactions are sponsored by the member.

Policy. Effecting private securities transactions without disclosure to and approval of F&C deprives F&C of an ability to supervise the securities transactions of persons associated with F&C; thereby making it difficult for F&C to exercise its obligation of good faith in its dealings with its investors. Therefore, no person may be involved in any way with a private securities transaction outside the regular course or scope of his/her association or employment with F&C without F&C's prior written approval. Private securities transactions conducted without firm's prior approval will result in immediate firm discipline that could result in termination.

Procedure. *In situations where the registered representative is entitled to compensation in connection with an approved transaction, F&C will supervise and record such transaction on its books and records.*

5.17. Outside Business Activities

Requirement. FINRA Rule 3270 prohibits any registered person from being an employee, independent contractor, sole proprietor, officer, director or partner of another person, or being compensated, or having the reasonable expectation of compensation, from another person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member.

Policy. Registered representative who undertake any non-passive outside business activity, are required to notify F&C immediately of such activity. A determination will be made by the CCO as to any potential conflict between the representative's responsibilities to F&C and the other activity within 30 days of receipt of notice from the registered representative or associated person. The representative may not engage in the activity until such time that F&C has granted written consent to do so.

Procedure. *Upon receiving prior written notice of outside business activity, F&C will consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person's responsibilities to F&C and/or F&C's customers or (2) be viewed by customers or the public as part of F&C's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Based upon this review, F&C must and will determine whether to impose any conditions or limitations on the registered person's outside business activity. F&C will also determine whether the proposed activity is an outside business activity or if it should be treated as an outside securities activity subject to the requirements of NASD Rule 3040. F&C will also keep a record of their compliance with the requirements of the Rule.*

In addition to periodic attestations regarding outside business activities, F&C also requires its registered persons to notify F&C in the event of a material change to his or her business activities.

Furthermore, F&C will query its representatives when hired and again at least annually for disclosure of outside non-passive business activity and whether the representative is an officer or 5% shareholder of any public company. Each representative and associated person of F&C will be required to annually complete a compliance questionnaire on which these disclosures will be made to F&C.

5.18. INSIDER TRADING (Chinese Wall)

5.18.1 Monitoring for Violations

Requirement. In November 1988, Congress enacted the Insider Trading and Securities Fraud Enforcement Act of 1988 ("The 1988 Act" or "ITSFEA") which, among other things, requires all broker-dealers "to establish, maintain and enforce written procedures reasonably designed" to prevent the misuse of material, non-public information by employee and proprietary accounts. Under ITSFEA, anyone who violates the securities laws by trading a security while in possession of material nonpublic information is subject to substantial civil as well as criminal penalties. Section 15(f) of the Securities Exchange Act of 1934 requires a firm to establish, maintain and enforce written policies and procedures reasonably designed, considering the nature of its business, to prevent any misuse of material nonpublic information by F&C or its employees.

5.18.2 Description of Inside Information and Insiders

"Inside" information is information that has not been publicly disclosed. Information received about a company under circumstances that indicate that it is not yet in general circulation and that such information may be attributable, directly or indirectly, to the company (or its insiders) should be deemed to be inside information.

5.18.3 Material Information

Material inside information is any information about a company or the market for the company's securities that has come directly or indirectly from the company and that has not been disclosed from the company and that has not been disclosed generally to the marketplace, the dissemination of which is likely to affect the market price of any of the company's securities or is likely to be considered important by reasonable investors, including reasonable speculative investors, in determining whether to trade in such securities.

Information should be presumed "material" if it relates to such matters as dividend

increases or decreases, earnings estimates, changes in previously released earnings estimates, significant increase or decline of orders, significant merger or acquisition proposals or agreements, significant new products or discoveries, extraordinary borrowing, major litigation, liquidity problems, extraordinary management development, purchase or sale of substantial assets, etc.

5.18.4 The Prohibition

Policy. The prohibition against insider trading includes the following: if an employee is in possession of material non-public information about a company (or issuer) or the market for a company's (or issuer's) securities, the employee must either publicly disclose, if appropriate, the information to the marketplace or refrain from trading until such information becomes public. In addition, an employee may not communicate such inside information to any other person who has no official and legitimate need to know the information.

Information is considered "material" if there is a substantial likelihood that a reasonable investor would consider it important in deciding to buy or sell a security. Information that, when disclosed, is likely to have a direct effect on a security's price should be treated as "material." Examples include information concerning impending tender offers, leveraged or other buy-outs, mergers, sales of subsidiaries, significant earnings changes, and other major corporate events.

Information is "nonpublic" when it has not been disseminated in any manner making it available to investors generally. Information is "public" once it has been publicly disseminated, such as when it is reported on the Dow Jones or other news services or in widely disseminated publications, and investors have had a reasonable time to react to the information. Once the information has become public or stale (i.e., no longer material) it may be traded on and/or disclosed freely.

Generally, a person violates the insider trading prohibition when that person violates a duty owed either to the person on the other side of the transaction or to a third party (such as a customer or employer) by trading on or disclosing the information. The insider trading prohibition applies to an issuer's directors, officers and employees, investment bankers, underwriters, accountants, lawyers and consultants, as well as all other persons who have entered into special relationships of confidence with an issuer of securities.

Virtually anyone can become subject to the insider trading prohibition merely by obtaining material nonpublic information by unlawful means or by lawfully obtaining such information and improperly using it. This is known as "misappropriation." If an employee receives material, nonpublic information as part of legitimate business dealings

on behalf of F&C or its customers and uses that information to trade in securities, or if an employee transmits or communicates (i.e., “tip”) that information to another person for purchasing securities (i.e., a “tipee”), the employee likely would be guilty of insider trading. Insider trading liability also may be “derivative.” A person who has obtained inside information from a person who has breached a duty or who has misappropriated information also may be held liable (i.e., a “tipee”).

F&C and its employees may become “insiders” upon receiving inside information from a company or issuer’s directors, officers and employees. F&C and its employees will remain “insiders” as long as they have inside information, regardless of whether F&C continues to do business with the company or issuer whose directors, officers and employees provided the inside information.

Other than in the normal course of confidential investment banking activities, Firm employees must not expect or seek to obtain material nonpublic information from issuers and their employees. And as noted elsewhere in these WSPs, any such material nonpublic information obtained in the normal course of confidential investment banking activities must be kept in confidence, not disclosed and not traded upon.

Procedure.

Treatment of Customer Information: F&C considers confidential all information concerning its customers including, for example, their financial condition, prospects, plans and proposals. The fact that F&C has been engaged by a company or issuer and has signed a contract make the details of that engagement also are confidential. F&C’s reputation is one of its most important assets. The misuses of any such customer information can damage F&C’s reputation and F&C’s relationships with its customers.

Treatment of F&C’s Proprietary Information: F&C considers confidential all information its own proprietary information. “Proprietary information” means information, analyses and plans based on material nonpublic information that are created by F&C or its employees for F&C’s business purposes. Such information may include unpublished research information, opinions and recommendations; information about F&C’s securities trading positions or trading intentions; F&C’s investment, trading or financial strategies or decisions; pending or contemplated fixed income underwritings or customer orders; unpublished analyses of companies or issuers, industries or economic forecasts; advice to investment banking clients (i.e., issuers); and analyses done by F&C of companies or issuers that are potential acquirers of other companies or issuers or their assets, or companies or issuers that are possible candidates for acquisition, merger or sale of assets.

What to Do if You Learn Inside Information: In general, it is not illegal to learn inside information. F&C learns material, nonpublic information from its customers and is

permitted to use that information in a lawful manner to advise and assist such customers. It is, however, illegal for you to trade on such information or to pass it along (“tip”) to others who have no legitimate business reason for receiving such information.

If you believe you have learned inside information, other than in the ordinary course of F&C’s business (such as investment bankers who learn inside information when working on an engagement), you are required to contact F&C’s Compliance Department immediately so that F&C may address the insider trading issues and preserve the integrity of F&C’s business activities. Do not trade on the information or discuss the possible inside information with any Firm employee. If you become aware of a breach of these WSPs, or of a leak of any inside information, contact F&C’s Compliance Department immediately.

Investigations of Trading Activities: From time to time, the exchanges, FINRA and the SEC request information from F&C concerning trading in specific securities. Requests for information should be referred to F&C’s Compliance Department. You may be asked to sign a sworn affidavit that, at the time of such trading, you did not have any inside information about the securities in question. Your employment may be terminated if you refuse to sign such an affidavit. F&C may submit these affidavits to the exchanges, the FINRA and/or the SEC. Note also that F&C itself reserves the right to conduct its own internal investigation(s) in respect of such matters.

Steps to Take to Preserve the Confidentiality of Material Nonpublic Information: If an employee is in a position within F&C to access inside information, the following are steps must be taken to preserve the confidentiality of inside information:

Material inside information should be communicated only when a justifiable reason exists to do so, on a need to know basis, inside or outside F&C. Before such information is communicated to persons within F&C, your department, or another person you believe needs to know, employees should contact their designated supervisor or F&C’s Compliance Department.

Do not discuss confidential matters in elevators, hallways, restaurants, airplanes, taxi cabs, parties, social gatherings, seminars, conferences or any other place where such conversations can be overheard. Use of speakerphones should be avoided in circumstances where material inside or proprietary information may be overheard. Mobile telephones should be used with care and circumspection because they are not secure.

Do not leave sensitive or confidential memoranda on a desk or in other places where it can be read by others. Do not leave a computer terminal without exiting the sensitive or confidential file in which you were working or locking the computer work station.

Confidential documents should be stored in locked file cabinets or other secure locations; they should not be left exposed overnight on desks, printers, facsimile machines or in work rooms. Copies of confidential documents no longer needed for a project should be destroyed. Care should be taken when disposing of such material (i.e., all such materials should be shredded).

Confidential databases and other confidential information accessible by computer should be maintained in computer files that are password protected or otherwise secure against access by unauthorized persons.

Do not read confidential documents in public or other places, or discard them, where they can be read or retrieved by others. Do not carry confidential documents in an exposed manner.

On drafts of sensitive or confidential documents, consider the use of code names or delete names to avoid identification of participants.

Do not discuss sensitive or confidential business information with spouses, other relatives or friends.

Do not boast or brag about your business to persons outside F&C, and do not boast or brag with any outsiders about deals or sensitive or confidential information in your possession.

Avoid even the appearance of impropriety. Serious repercussions may follow from insider trading and the laws proscribing insider trading can change. Since it is often difficult to determine what constitutes insider trading, you should consult your designated supervisor and/or F&C's Compliance Department whenever you have questions about this subject.

These rules apply both to the material nonpublic information received by F&C and to F&C's proprietary information using all or any part of such material nonpublic information.

5.18.5 Information Barriers ("Chinese Walls") Procedures

Requirement. Chinese Walls are established within broker dealers to create information barriers that are designed to prevent the flow of material nonpublic information between or among F&C's departments or divisions, and between or among the respective employees of those departments or divisions.

Policy. F&C may obtain, for example, material nonpublic information while engaging in investment banking activities. Effective Chinese Wall procedures permit F&C to continue conducting underwriting, trading and other business activities while another department

or division has knowledge of inside information affecting an issuer of securities.

***Procedure.** F&C has established procedures to isolate departments and/or employees with inside information and permit the conduct of business in other areas. F&C does currently maintain a Watch or Restricted.*

Departments or divisions of F&C that obtain material nonpublic information in the normal course of business must maintain the confidentiality of that information and not use such information in any manner prohibited by these WSPs and contact the Compliance Department to discuss the proper course of action. Other departments or divisions of F&C that potentially may be affected or impacted by such information may continue to conduct normal business activities unless they become or should become aware of the inside information. If that is the case, the employee is required to immediately contact the Compliance Department for guidance regarding future activities involving the Subject Company or issuer, and/or request permission from the Compliance Department to bring other employees and/or departments "over the wall".

Given the size and the particular business scope of F&C, F&C does not anticipate having to deal with many information barrier issues. However, and except in accordance with F&C's "wall-crossing" procedures (described below), no employee should disclose any material non-public information to any other employee, and no employee should be given access to any file, document, database or any other materials that might contain any such nonpublic or proprietary information.

F&C's Compliance Department is considered to be "above" the Chinese Wall, and may be contacted concerning inside information without use of the "wall-crossing" procedures described below.

Wall-Crossing Procedures

In certain circumstances, Firm employees engaged in structuring or effecting a particular transaction or other securities activities may find it necessary to obtain the advice or information from another employee.

If such sharing becomes necessary or advisable, the receiving employee must be "brought over the wall" in accordance with the specific wall-crossing procedures set forth below prior to disclosing the information. Note that in some cases, the employee who received the information (i.e., the employee who is "brought over the wall") must cease certain regular business activities or be restricted from all or part of same.

F&C's Compliance Department must approve, in writing and in advance, any request to "bring an employee over the wall." If such approval is granted, the affected employee's(s') must be monitored by his/her/their designated supervisor(s) to ensure that

the requirements in these WSPs are honored.

If Compliance Department approval is granted to “bring an employee over the wall,” all reasonable efforts should be made to limit and restrict any disclosures to the receiving employee only to such information that the receiving employee reasonably needs to complete his/her assigned duties. In most cases, “less is better.”

In some cases, the employee “brought over the wall” may be required, even after the project is completed or terminated, to maintain the confidentiality of the information that he/she received.

Any violations of this policy are grounds for employee discipline up to and including termination of employment.

Conclusion

F&C has a vital interest in its reputation, the reputation of its employees and in the integrity of the securities markets. Insider trading would destroy that reputation and integrity. F&C is committed to taking all reasonable steps to prevent insider trading and to punish any employee who engages in this practice and/or fails to comply with these WSPs.

It is the policy of F&C that no associated person may act on any material, nonpublic information, either for himself or herself or with or through any other person. No associated person may utilize material, non-public information improperly. “Improper Use” includes trading for an associated person’s own account or conveying such information to another person. Improper use also includes soliciting, accepting or effecting orders from any person when it is reasonably apparent that the individual is in possession of or trading on material non-public information with respect to the activities or affairs of a company. An associated person shall include each director, official, agent, employee, registered representative and registered principal.

Additionally, all associated persons must exercise extreme care to assure that material, non-public information that they may acquire in the performance of their duties is kept confidential and is only discussed for a valid corporate purpose under appropriate circumstances and with appropriate persons.

Neither F&C nor any person associated with F&C shall initiate any communication with any official, director, employee, or agent of an issuer with the intent of procuring material, non-public information. This procedure shall not preclude persons associated with F&C attending meetings wherein security analysts and representatives of other

broker-dealers are in attendance, which meeting is utilized by an issuer to make public announcements affecting the issue.

Whether a person is in possession of material, non-public information depends on the facts of each individual case. Any employee who has questions about the possession, use or dissemination of inside information should immediately contact the CCO who will determine what action, if any, should be taken.

In the event an investigation is warranted, F&C will maintain documentation sufficient to recreate actions taken. In addition to written procedures and policies, F&C will maintain documentation of its analyses and investigations of trading.

Further, F&C is prohibited from purposefully establishing, creating or changing F&C's inventory position in a Nasdaq-listed security, an exchange-listed security traded in the third market, or a derivative security related to the underlying equity security, in anticipation of the issuance of a research report regarding such security by the member firm.

Finally, upon initial hire and at least annually thereafter, all associated persons will be required to sign an attestation of his or her knowledge and understanding of insider trading and certify they have not been party to receipt of such information or been involved in potentially applicable transactions.

Specific Supervisory Responsibilities

Function: Dealing with Investors - Other Registered Representative Activity

Title: General Securities Principal and CCO

Location: Minneapolis, MN

Registrations: 4, 7, 24, 55, 63, 66, 87

Effective Date: July 16, 2014

RESPONSIBILITIES

- Monitor Branch Manager's review and approve all transactions, ensuring each registered representative has made a valid suitability determination.
- Monitor Branch Manager's review for patterns of activity that might indicate unauthorized trading.
- Review transactions, annual certification/questionnaire by registered persons and other relevant documentation to supervise registered representative activities and ensure prohibited activities are not taking place.
- Maintain and monitor gifts & gratuities made by associated persons and associated persons.
- Review activities and requirements associated with accounts of persons associated with other FINRA Member firms.
- Monitor for Free Riding and Withholding for registered persons and family-related accounts.
- Review and act on all proposed private securities transactions including supervising and recording such transactions on F&C's books and records, if required.
- Monitor non-passive outside business activities of associated persons.
- Provide ongoing training to all representatives regarding insider trading.
- Deliver a copy of F&C's insider trading policies to each representative.

- Make determination whether questionable information is in fact material, nonpublic or "inside" information.
- The CCO will monitor registered persons' and associated person's accounts at other broker-dealers for suspicious or questionable activity.
- Investigate and document any potential insider trading situations.
- Maintain the Restricted and Watched Stocks lists.

6. PERSONNEL MATTERS

6.1. Form U-4

Requirement. Article IV of FINRA Bylaws requires members and registered persons to keep Form U-4s current at all times by filing supplementary amendments to the original application whenever previously reported information is no longer current or whenever new circumstances should be reflected by Form U-4. Disclosable events must include a detailed explanation on the form's disclosure reporting page. Any amendments to an application shall be filed with FINRA no later than thirty (30) calendar days after learning of the facts or circumstances giving rise to the amendment.

The financial parameters of the Rule 4530 (customer complaint reporting) requirements are higher than the Form U-4 parameters for an investment related, customer initiated complaint or proceeding. As such, a firm may be required to report a representative related event via an amended Form U-4 when it is not necessarily required to make a Rule 4530 disclosure.

Specifically, Rule 4530 requires a disclosure when a registered person is the subject of any claim for damages by a customer, broker, or dealer which is settled for an amount exceeding \$15,000. However, Form U-4 must be amended to reflect any occurrence of customer initiated alleged compensatory damages of \$5,000 or to reflect a settlement or decision of \$5,000 or more against a registered person.

Policy. All associated persons must ensure that their Form U-4s are current at all times by notifying F&C and providing amendments as changes occur. It is the RR's responsibility to include accurate information and promptly notify Compliance of any updates that may require amendment to Form U-4. This obligation includes, but is not limited to, notifying Compliance right away of any name changes, address changes, bankruptcies, customer complaints, lawsuits, arbitrations, settlements, and arrests. This requirement applies equally to complaints, lawsuits, arbitrations, and settlements that relate to activities at former employers.

Procedure. *F&C has designated its CCO (or his/her designee) as the person responsible for electronic filings.*

At the time of hire, all registered persons must submit a completed Form U-4, which will be reviewed by the CCO and submitted to FINRA through Firm Gateway. Failure to disclose all required information and/or notify F&C in the event an amendment is necessary may result in termination of and/or a fine levied against the registered representative. Copies of Form U-4 and any amendments will be maintained in F&C's books and records. Furthermore, F&C will provide an associated person with the

following written statement whenever the associated person is asked to sign a new or amended Form U-4. The disclosure will contain the following information—

ARBITRATION DISCLOSURE

Form U-4 contains a predispute arbitration clause. It is in item 5 on page 4 of the Form U-4. You should read that clause now. Before signing the Form U-4, you should understand the following:

(1) You are agreeing to arbitrate any dispute, claim or controversy that may arise between you and your firm, or a customer, or any other person, that is required to be arbitrated under the rules of the self-regulatory organizations with which you are registering. This means you are giving up the right to sue a member, customer, or another associated person in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

(2) A claim alleging employment discrimination, including a sexual harassment claim, in violation of a statute is not required to be arbitrated under FINRA rules. Such a claim may be arbitrated at the FINRA only if the parties have agreed to arbitrate it, either before or after the dispute arose. The rules of other arbitration forums may be different.

(3) Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

(4) The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

(5) The arbitrators do not have to explain the reason(s) for their award.

(6) The panel of arbitrators may include arbitrators who were or are affiliated with the securities industry, or public arbitrators, as provided by the rules of the arbitration forum in which a claim is filed.

(7) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

6.2. Fingerprinting

Requirement. Unless exempt, all persons including partners, directors, officer or employee of a broker-dealer are required pursuant to SEC Rule 17f-2 to be fingerprinted. The fingerprints must be submitted to the Attorney General of the United States or its designee for identification and appropriate processing.

Policy: All persons including partners, directors, officer or employee of a broker-dealer are required pursuant to SEC Rule 17f-2 to be fingerprinted unless they meet one of the following exemptions from the rule:

- Those persons who are not engaged in the sale of securities; who do not regularly have access to the keeping, handling or processing of securities,

monies or the original books and records relating to the securities or the monies; and who do not have direct supervisory responsibility over persons engaged in the just-mentioned activities.

- Certain persons of broker-dealers engaged exclusively in the sale of shares of open-end management investment companies, variable contracts, or interests in limited partnerships, unit investment trusts or real estate investment trusts; provided that those securities ordinarily are not evidenced by certificates. The broker-dealer must also be current in its continuing obligation to update Item 10 of Form BD to disclose the existence of any statutory disqualification; have insurance or bonding coverage indemnifying it for losses to investors caused by the fraudulent or criminal acts of any of its partners, directors, officers or employees for whom an exemption is being claimed; and be subject to the jurisdiction of a state insurance department with respect to its sale of variable contracts. Once the broker-dealer satisfies these conditions, an exemption from fingerprinting is available to those employees (including partners, directors and officers) that do not regularly have access to the keeping, handling or processing of securities, monies or the original books and records relating to the securities or the monies.

- Those persons who are unable to produce a legible set of fingerprints.

The above exemptions are available provided that F&C complies with the notice requirement of paragraph (e) of the rule.

Procedure. *F&C will obtain fingerprints for each of their officers, partners, directors, and employees who are engaged in the sale of securities; who regularly have access to the keeping, handling or processing of securities, monies or the original books and records relating to the securities or the monies; and who have direct supervisory responsibility over persons engaged in such activities. Fingerprints are to be submitted by the Compliance Department to FINRA for identification and processing.*

6.3. Background Investigations

Requirement. FINRA Conduct Rule 3110 requires that each member shall have the responsibility and duty to ascertain by investigation the good character, business repute, qualifications, and experience of any person prior to making such a certification in the application of such person for registration with this Association. Where an applicant for registration has previously been registered with the Association, the member shall obtain from the applicant a copy of the Uniform Termination Notice of Securities Industry Registration (Form U-5) filed with the Association by such person's most recent previous FINRA member employer, together with any amendments thereto that may have been filed pursuant to Article IV, Section 3 of the Association's By-Laws. The member shall obtain the Form U-5 as required by this Rule no later than sixty (60) days following the filing of the application for registration or demonstrate to the Association that it has made reasonable efforts to comply with the requirement. A member receiving a Form

U-5 pursuant to this Rule shall review the Form U-5 and any amendments thereto and shall take such action as may be deemed appropriate.

Article V, Section 3(a) of FINRA By-Laws requires that, following the termination of the association with a member of a person who is registered with it, such member shall, not later than 30 days after such termination, give notice of the termination of such association to FINRA via Web-CRD on a form designated by FINRA, and concurrently shall provide to the person whose association has been terminated a copy of said notice as filed with FINRA.

Policy. F&C will screen all potential new employees/registered persons by taking steps prior to making an offer of employment and/or registration to any person including persons hired solely in a clerical or ministerial capacity, to determine if any such person is subject to statutory disqualification. If it is determined that such person is indeed subject to statutory disqualification, F&C will follow eligibility procedures outlined in NASD Rule Series 9520 to determine if the statutorily disqualified person may become registered with F&C. Following termination of registered person, F&C will be required to file Form U5 on behalf of the terminated person within 30 days of the termination and provide a copy to the terminated person.

Procedure. *It will be the responsibility of the CCO (or his/her designee) to ensure that, for each newly hired registered person, former employers are contacted to verify the employment history and make general inquiries regarding their employment, to the extent available from a former employer, in order to ascertain the good character of the prospective employee and that he/she is not subject to statutory disqualification. Further, F&C will obtain the Form U-5 from the registered person or make a written request for a copy from the former employer-broker-dealer. Copies of related correspondence will be maintained in the representative's file.*

If F&C will engages employees (or representatives) who were previously employed by a disciplined firm, F&C will be required to implement procedures set forth in Rule 3110.

6.4. Proper Registration and Licensing

Policy. Associated persons - FINRA Membership and Registration Rule 1031(a) requires that all persons engaged or to be engaged in the investment banking or securities business of a member who are to function as representatives shall be registered as such with the Association in the category of registration appropriate to the functions to be performed as specified in Rule 1032. Membership and Registration Rule 1031(b) defines a registered representative as a person or persons associated with a member, including assistant officers other than principals, who are engaged in the investment banking or securities business for the member including the functions of supervision, solicitation or conduct of business in securities or who are engaged in the training of persons associated with a member for any of these functions are designated as representatives. A member shall not maintain a securities registration with the Association for any person (1) who is no longer active in the member's investment banking or securities business, (2) who is no

longer functioning as a registered representative, or (3) where the sole purpose is to avoid the examination requirement.

Principals - FINRA Membership and Registration Rule 1021(a) requires that all persons engaged or to be engaged in the investment banking or securities business of a member who are to function as principals shall be registered as such with the Association in the category of registration appropriate to the function to be performed. Before their registration can become effective, they shall pass a Qualification Examination for Principals appropriate to the category of registration as specified by the Board of Governors. A member shall not maintain a principal registration with the Association for any person (1) who is no longer active in the member's investment banking or securities business, (2) who is no longer functioning as a principal, or (3) where the sole purpose is to avoid the examination requirement.

FINRA Conduct Rule 1021(b) defines "principal" as persons associated with a member who are actively engaged in the management of the member's investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member for any of these functions are designated as principals, including:

- Sole Proprietors
- Officers
- Partners
- Managers of Offices of Supervisory Jurisdiction, and
- Directors of Corporations

Persons Exempt from Registration - Membership and Registration Rule 1060 allows that persons associated with a member whose functions are related solely and exclusively to the member's need for nominal corporate officers or for capital participation (i.e. Directors, Shareholders), who are not actively engaged in a member's business and fulfill a nominal corporate role are not required to register as principals. Further, persons associated with a member who are not actively engaged in the investment banking or securities business, and persons associated with a member whose functions are exclusively clerical or ministerial, are not required to register as principals.

"Principals" are the qualified officers, partners, and supervisors of the securities firm, and "Representatives" are specifically the sales personnel, the brokers, or investment bankers, as they are sometimes called, who introduce accredited investors to client transactions. Even though both "Principals" and "Representatives" are in the registration sense, representatives of the securities firm, the difference between the two is one of responsibility and classification. "Representative" is the term normally applied to the sales personnel, or whatever other designation may be given within F&C.

Procedure. *The CCO will be responsible, on an ongoing basis, for ensuring all registered persons are properly registered in the category of representative or principal based on each individual's responsibilities and duties. Further, the CCO will ensure F&C does not maintain the registration for any person who is no longer active in its securities business.*

6.5. Outside Business Activities

FINRA Rule 3030 requires that, before being employed or accepting compensation from any business activity outside of employment with a member firm, other than a passive activity, all registered persons shall provide prompt written notice to the employing broker-dealer.

Policy. F&C views all non-passive outside business activities as prohibited until reviewed and approved by Compliance. Reps with pre-existing activities must disclose those activities upon joining F&C. All Brokers, currently contracted with F&C, are required to immediately disclose to their Branch Manager any new outside business activities or any changes to a previously approved outside business activity. Branch Managers, after reviewing the activity are required to promptly forward the information to Compliance.

Procedure. *The CCO (or the designated Compliance Officer) will submit annual forms to RRs that will remind and require RRs to disclose any outside business activities. All new hires will be required to fill out an outside business form upon joining F&C. Compliance will update the RR's Form U-4, as required, with any new outside business activity that has been approved.*

6.6. Private Securities Transactions

Policy. Pursuant to FINRA Rule 3040(e), Private Securities Transactions are defined as "any securities transactions outside the regular course or scope of an associated person's employment with a member". These transactions can generally be grouped into two categories:

1. Transactions in which an associated person sells securities to public investors on behalf of another party (for example, as part of a private offering of limited partnership interests, or as an insurance agent selling group variable annuities or group life insurance contracts, without the participation of the individual's employer firm).
2. Transactions in securities owned by an associated person.

Private securities transactions include securities transactions that involve a limited number of purchases or sales and other investment transactions involving associated persons that are outside the course of their association or employment with the member. These private securities transactions may mislead investors or participants into believing the transactions are sponsored by the member.

Procedure. *Effecting private securities transactions without disclosure to and approval of F&C deprives F&C of an ability to supervise the securities transactions of persons associated with it; thereby making it difficult for the member to exercise its obligation of good faith in its dealings with its investors. Therefore, no person may be involved in any way with a private securities transaction outside the regular course or scope of his association or employment with F&C without the prior written approval of F&C. In*

situations where the registered representative is entitled to compensation in connection with an approved transaction, F&C will supervise and record such transaction on its books and records.

6.7. Heightened or Special Supervision

Policy. F&C will institute special supervision for RRs or others when appropriate. The following sections describe F&C's procedures for identifying RRs subject to special supervision and the types of supervision that may be conducted.

Procedure. *Compliance will identify RRs who might require special supervision. RRs will be identified at the time of hire or when an RR becomes subject to regulatory action and/or a pattern of customer complaints. Unregistered individuals who were previously registered and the subject of customer or regulatory complaints are also subject to consideration for special supervision.*

Criteria for Identifying Candidates for Special Supervision

The following are criteria that may trigger a review by Compliance to determine whether an RR should be subject to special supervision. Pending as well as resolved matters will be considered. The criteria are subjective and the details of the complaints and/or regulatory actions must be considered in determining whether special supervision is necessary.

- *Three or more customer complaints alleging sales practice abuse within the past two years (complaints include written complaints, arbitrations, other civil actions)*
- *Complaint filed by a regulator*
- *Injunction in connection with an investment-related activity*
- *Termination for cause or permitted to resign from a former employer where the termination appears to involve a significant sales practice or regulatory violation*
- *Employment with three or more broker-dealers in the five years before joining F&C (excluding mergers)*
- *Bankruptcy - the type of bankruptcy, when the bankruptcy happened and the details and reason behind the bankruptcy will be considered.*

Special Supervision Memorandum

When a candidate is identified for possible special supervision, the Compliance Department, in consultation with the RR's Branch Manager, will consider whether special supervision will be established. If it is determined that special supervision is appropriate, Compliance will design a supervision program to address that particular situation. Such a program may include the following:

- *The RR may be required to work from F&C's home office, where the Compliance Department is located.*
- *All trades executed by the RR may be reviewed by the RR's direct supervisor on a daily basis through the branch's daily trade blotter or electronic trade surveillance system. In the direct supervisor's absence a member of the Compliance Department may review the daily trade activity through F&C's daily trade blotter. Evidence of review will be signified by the reviewer's initials.*
- *At the end of each month a member of the Compliance Department may review the RR's monthly commission run, though not required. Evidence of review will be signified by the reviewer's initials.*
- *All sales literature/advertising or correspondence may be reviewed by the direct supervisor and/or a member of the Compliance Department. Evidence of review will be signified by the reviewer's initials.*

Compliance will prepare a memorandum summarizing the terms of each special supervision situation. The RR and his/her supervisor will sign and return copies of the memorandum to Compliance.

6.8. Supervision of Statutorily Disqualified Individuals

Requirement. Pursuant to SEC Rule 19h-1, each member is obligated to adequately supervise persons who are statutorily disqualified because of serious securities laws violations but have been granted new employment in the securities industry following a membership continuance proceeding.

Statutory disqualification is generally defined as any domestic felony conviction, regardless of the underlying nature of the offense. Such offenses include any felony conviction that occurred in the United States within the last 10 years, certain foreign convictions, and certain foreign securities and commodities violations. The enumerated crimes set forth in the prior law remain disqualifications. Such convictions are disqualifications for a 10-year period commencing on the day the conviction is entered. Under federal securities laws, the sanctions of expulsion, revocation, and bar constitute statutory disqualifications. Persons subject to any form of statutory disqualification cannot become members of FINRA, continue in membership, or be associated with a member.

A firm or associated person subject to such disqualification can seek relief from the disqualification. To engage in the securities business despite a statutory disqualification, a firm may apply on behalf of an individual under FINRA's Eligibility Proceedings.

Policy. Before hiring an individual subject to a statutory disqualification, Compliance should be consulted to review the nature of the statutory disqualification and potential special supervision that may be required upon hiring.

***Procedure.** F&C's Compliance Department is responsible for completion and filing of FINRA Form MC400, which will be signed by a senior officer or partner of F&C. A hearing may be required before approval of the individual's association with F&C. The individual may not conduct any activities requiring registration until approval is received from the appropriate regulatory authorities. If an employee becomes subject to a statutory disqualification during his/her employment with F&C, Compliance will file the necessary registration updates in addition to the required notification on the quarterly complaint report will be made to FINRA consistent with its reporting requirements.*

During the period of FINRA and, in many cases, SEC consideration of such application, the disqualified person may not conduct any activities on behalf of F&C.

6.9. Taping Recording of Registered Persons

Requirement. Rule 3170 is designed to ensure that members with a significant number of registered persons that previously were employed by firms that have been expelled from membership or have had their registrations revoked for sales practice violations (Disciplined Firms) have proper supervisory procedures in place relating to telemarketing activities to prevent fraudulent and improper sales practices or other customer harm.

Policy. Under the Rule, if F&C hires a specified number of registered persons from Disciplined Firms it must establish, maintain, and enforce special written procedures for supervising the telemarketing activities of all their registered persons. Such procedures must include tape-recording all telephone conversations between such firms' registered persons and both existing and potential customers. The Rule provides firms up to 60 days from the date they receive notice from FINRA or obtain actual knowledge that they are subject to the provisions of the Rule to establish and implement the required supervisory procedures, including installing taping systems. Such firms also are required to review the tape recordings, maintain appropriate records, and file quarterly reports with FINRA.

***Procedure.** F&C has not registered any person that was previously employed by a firm that has been expelled from membership or has had its registration revoked for sales practice violations and, therefore, is not subject to the requirements of the Taping Rule. The CCO will continue to monitor new hires and evaluate whether the Taping Rule should come into effect for F&C.*

6.10. Termination of Registration

Requirement. Article V, Section 3(a) of FINRA By-Laws requires that, following the

termination of the association with a member of a person who is registered with it, such member shall, not later than 30 days after such termination, give notice of the termination to FINRA and concurrently shall provide to the person whose association has been terminated a copy of said notice as filed with FINRA.

Policy. It is the responsibility of F&C to ensure that, within 30 calendar days of termination of any representative, a Form U-5 will be filed with FINRA on behalf of a terminated employee. U-5 forms will be reviewed and approved by the CCO or the General Counsel before submission to ensure all necessary information is included. F&C has designated its CCO as the person responsible for electronic Form U5 filings.

Procedure. *F&C will also provide the terminated representative with a copy of such Form U-5 within the same time frame. Any subsequent amendments to Form U-5 will also be filed within 30 days of F&C's learning of the need for such amendments. Copies of Form U-5 and any subsequent amendments will be maintained in F&C's books and records.*

6.11. Amendments to Form U-4 or Form U-5

Policy. F&C will submit amendments to Form U-4 when an RR advises of updates that require amendment. FINRA requires the amendments to be filed within 30 days of F&C (the firm or the RR) of the need for such amendments. If filed after 30 days of such knowledge of a required amendment, the RR and/or the firm may be subject to late filing fees as determined by FINRA. These include \$100 late filing fee for the first day late and \$25 per day late filing fee each subsequent day late up to a maximum of \$1575 late fee. In addition, there may be a \$110 filing fee and other FINRA disclosure review fees as well as possible FINRA fines and enforcement action.

Procedure. *Compliance is responsible for determining whether disciplinary or complaint matters or matters reported on F&C's Annual Compliance Questionnaire and Agreement require the filing of an amendment to an RR's Form U-4. Compliance is also responsible for identifying disciplinary or complaint matters to be reported on Form U-5 termination notices including amendments required after termination. In addition to making required amendments to Form U-4 and U-5 Compliance will file as necessary quarterly reports per Rule 4530. 4530 reports are due by the 15th day of the month following quarter end (January 15, April 15, July 15, October 15). Any FINRA late filing fees associated with an amendment to an RR's Form U-4 that was not filed in a timely manner due to the RR's failure to notify compliance will be incurred by the RR.*

6.12. Continuing Education

Requirement. The securities industry self-regulatory organizations (SROs) have established uniform rules mandating a two-part Securities Industry Continuing Education Program consisting of a Firm Element and a Regulatory Element. Firms must develop Written Supervisory Procedures designed to reasonably ensure compliance with FINRA Rule 1250 (formerly NASD Rule 1120) - Continuing Education. For purposes of both F&C and Regulatory Elements of the Rule, "registered person" means any person required to be registered with F&C as a principal, representative or assistant representative pursuant to FINRA Membership and Registration Rules.

Policy. The Regulatory Element Rule requires each registered person to complete the Regulatory Element via interactive computer-based training at specified intervals and encompasses regulatory and compliance issues, sales practice concerns, and business ethics. All registered persons must participate in the appropriate Regulatory Element on the second anniversary of their initial securities registration and every three years thereafter throughout their careers. The Regulatory Element computer-based training modules separately target regulatory issues for associated persons and for the specific needs of registered principals.

On each occasion, the Regulatory Element must be completed within 120 calendar days after the person's registration anniversary date. The initial registration date (known as the base date) shall establish the cycle of anniversary dates for purposes of this Rule. The content of the Regulatory Element shall be determined by FINRA and shall be appropriate to either the registered representative or principal status of persons subject to the Rule.

Failure to Complete

Unless otherwise determined by FINRA, any registered persons who have not completed the Regulatory Element within the prescribed time frames will have their registrations deemed inactive until such time as the requirements of the program have been satisfied. Any person whose registration has been deemed inactive under this Rule shall cease all activities as a registered person and is prohibited from performing any duties and functioning in any capacity requiring registration. In addition, the firm may not compensate the RR for any securities business if deemed inactive. A registration that is inactive for a period of two years will be administratively terminated. A person whose registration is so terminated may reactivate the registration only by reapplying for registration and meeting the qualification requirements of the applicable provisions of [Rule 1230\(b\)\(6\)](#) and the NASD [Rule 1020](#) and [1030](#) Series. FINRA may, upon application and a showing of good cause, allow for additional time for a registered person to satisfy the program requirements.

Significant Disciplinary Action - Directed Sequence - Directed Session

The terms Significant Disciplinary Action (SDA), Directed Sequence, and Directed Session do not appear in Rule 1120 itself, but are used in various Notices to Members to describe certain requirements and applications of the rule. An SDA occurs when a registered person:

- becomes subject to a statutory disqualification pursuant to the Securities Exchange Act of 1934;
- becomes subject to a suspension or to the imposition of a fine of \$5,000 or more for violation of a securities law or SRO rule; or
- is ordered to reenter the Regulatory Element as a sanction in a disciplinary action by any securities governmental agency or securities SRO.

The imposition of an SDA "resets the clock" for individuals, whether they are exempt from the Regulatory Element (because they were registered for more than 10 years as of July 1, 1998), are already covered by it, or have previously met the Regulatory Element requirements. When an SDA is imposed, any of the registered person's existing requirements under the Regulatory Element at that time are essentially erased and the individual must reenter the Regulatory Element and complete a "Directed Sequence" of four CBT sessions. The first session in their "Directed Sequence" is required within 120 days from the "Directed Sequence Effective Date," which is the 45th day after the date of action specified in the official disciplinary decision document. Subsequent sessions are required within 120 days from the second anniversary of the "Directed Sequence Effective Date" and every three years thereafter.

A single Regulatory Element CBT Session as part of a disciplinary action is referred to as a "Directed Session." The individual must complete this Directed Session within 120 days from the "Directed Session Effective Date," which is 45 days from the Date of Action specified in the official disciplinary decision document. This single session is in addition to, and does not reset the clock.

The Rule allows the FINRA, when appropriate, to designate specific Regulatory Element programs for various registration categories, thereby providing customized training for such categories. For purposes of FINRA rules, the following registrations will be included in the principal category: Series 4 (Registered Options Principal); Series 8 (General Securities Sales Supervisor); Series 26 (Investment Company Products/Variable Contracts Limited Principal); Series 27 (Financial and Operations Principal); Series 28 (Introducing Broker-Dealer Financial and Operational Principal); Series 39 (Direct Participation Programs Principal); Series 53 (Municipal Securities Principal Qualification); and the Government Securities Principal (no series number).

In-Firm Delivery of the Regulatory Element

Members will be permitted to administer the continuing education Regulatory Element

program to their registered persons by instituting an in-firm program acceptable to FINRA that meets certain required criteria.

Regulatory Element Contact Person

Requirement. Each member shall designate and identify to FINRA (by name and e-mail address) an individual or individuals responsible for receiving e-mail notifications provided via the Central Registration Depository (“CRD”) regarding when a registered person is approaching the end of his or her Regulatory Element time frame and when a registered person is deemed inactive due to failure to complete the requirements of the Regulatory Element program. Each member shall identify, review, and, if necessary, update the information regarding its Regulatory Element contact person(s) in the manner prescribed by NASD [Rule 1160](#).

Procedure. *F&C has identified its CCO (or his/her designee) as its Regulatory Element Contact Person who will be responsible to shall identify, review, and, if necessary, update the information regarding its Regulatory Element contact person(s) in the manner prescribed by NASD [Rule 1160](#)*

Requirement. Rule 1120 requires that no member shall permit any registered person to continue to, and no registered person shall continue to, perform duties as a registered person unless such person has completed the Regulatory Element requirement within the prescribed time frames. The registration of any person failing to complete the Regulatory Element within the prescribed time frames is deemed inactive until the requirements of the program have been satisfied. Any person whose registration has been deemed inactive shall cease all activities that require registration. Any person whose registration remains inactive for more than two years will have to re-qualify for registration by taking the appropriate registration examination and will be subject to the Regulatory Element requirements commencing with their new registration date.

Procedure. *The CCO will be responsible for administering the Continuing Education program at F&C. A memorandum regarding a registered person's anniversary requirement for the Regulatory Element will be disseminated to the targeted associated person, notifying him/her of the need to complete the Computer Based Training (CBT) within the 120-day window. A follow up notification will be provided each 30 days or until the requirement has been met. The CCO may, at his discretion, determine additional contact with the registered person is needed or take any other action deemed appropriate to assure each person complies with the Regulatory Element requirement.*

Should the individual fail to complete the Regulatory Element within the prescribed time period, such person's registration will be deemed inactive and that person may not act in any capacity requiring registration. As a result, such person may not be physically

present at F&C, may not contact or communicate with customers, or earn or receive commission-based compensation until such time as they have complied with the Regulatory Element. Should circumstances warrant, the CCO may randomly contact customers to ensure there has been no communication by the inactive registered person. Further, any associated person who becomes inactive may, at the discretion of the CCO, be subject to a fine or termination.

Firm Element

Requirement. F&C's Element portion of the Rule shall apply to any person registered with a member who has direct contact with customers in the conduct of the member's securities sales, trading and investment banking activities, any person registered as an operations professional pursuant to [Rule 1230\(b\)\(6\)](#) or a research analyst pursuant to NASD [Rule 1050](#), and to the immediate supervisors of such persons (collectively, "covered registered persons"). "Customer" shall mean any natural person and any organization, other than another broker or dealer, executing securities transactions with or through or receiving investment banking services from a member.

Policy. F&C must maintain a continuing and current education program for its covered registered persons to enhance their securities knowledge, skill, and professionalism. At a minimum, each member shall at least annually evaluate and prioritize its training needs and develop a written training plan. The plan must take into consideration the member's size, organizational structure, and scope of business activities, as well as regulatory developments and the performance of covered registered persons in the Regulatory Element. If a member's analysis establishes the need for supervisory training for persons with supervisory responsibilities, such training must be included in the member's training plan.

F&C is required to comprehensively assess its own specific needs, and use the assessment to develop and implement a Written Training Plan for its covered registered persons. The assessment and plan must be done annually. Member firms are required to specifically focus on supervisory needs in conducting their annual analysis of training needs, and if it is determined that there is a specific need for supervisory training for registered principals, it must be addressed in F&C Element training plan.

Each firm is required to conduct an annual analysis of its training needs and administer such training, as is appropriate, to its registered persons on an ongoing basis. Training topics must be specifically related to its business, such as new products, sales practices, risk disclosure, and new regulatory requirements and concerns. The rule also requires members to focus specifically on supervisory needs in conducting their analysis of training needs, and if it is determined that there is a specific need for supervisory training for registered principals, it must be addressed in F&C Element training plan. To accomplish

this, members must focus on the products, job functions, and issues in which F&C, its supervisors, and its registered persons are involved. The results of this analysis must be documented and used as the basis on which firms establish priorities and develop their own specific annual Written Training Plans. In developing these plans, priority should be given to issues or products identified as subjects of general regulatory concern, or which have been the source of significant problems to F&C or elsewhere in the industry if relevant to F&C's business. Specifically, the information derived from the needs analysis should become the primary basis for the Written Training Plan. In developing the training plan, areas to consider include F&C's products or services, available training technology and delivery mechanisms, the geographic location of individuals to be trained, and whether to deliver the training through internal personnel and facilities or through the use of outside vendors.

The coverage and continuity of an established training program can be enhanced by annually reviewing the original plan and needs analysis for appropriate updates and modifications. F&C's training materials must be appropriate for the size of F&C, its scope of business, method of operation, and the securities products, services, and strategies it offers to customers or in which it conducts a trading or investment banking business. Training material developed by or for a firm to satisfy the requirements of F&C Element should include coverage of the minimum standards that are applicable and can be reasonably identified. A firm's training plan must include the intended time schedule for development and delivery. While schedules may reflect both prioritized training needs and the availability of personnel and facilities, training plans should be sufficiently flexible to accommodate unforeseen needs. Information related to significant product developments, unforeseen problems, complaint patterns, or regulatory initiatives should be communicated in a timely manner.

The annual compliance meeting required under NASD Rule 3110 may be used to transmit information or conduct training. When appropriate, there should be an opportunity for interactive dialogue and active participation by covered persons to encourage an exchange of ideas and the opportunity for questions and answers. Training to meet the requirements of F&C Element may be accomplished in conjunction with meetings or programs with a different primary purpose, provided that the training itself is conducted in an appropriate setting and that a meaningful amount of time is devoted to it.

Minimum Standards for Training Programs — Programs used to implement a member's training plan must be appropriate for the business of the member and, at a minimum must cover the following matters concerning securities products, services, and strategies offered by the member:

- (i) General investment features and associated risk factors;
- (ii) Suitability and sales practice considerations;
- (iii) Applicable regulatory requirements; and

(iv) With respect to registered research analysts and their immediate supervisors, training in ethics, professional responsibility and the requirements of NASD [Rule 2711](#).

All materials and presentations must focus on the best interests of investors and be characterized by truthfulness, accuracy, and disclosure of material information. The information must, at a minimum, reflect regulatory and industry standards for communications with the public. Information on specific products, services, or investment strategies may be used, provided such information encompasses associated risks, suitability considerations, and applicable regulatory requirements. All training materials must be maintained by F&C and be available for review.

Participation by a covered person in an educational program designed to meet the initial and/or ongoing requirements of a professional designation program in a field related to the securities industry may qualify as all or part of F&C's training plan for that person (i.e., a covered person with an insurance license who fulfills insurance continuing education obligations may use that training to meet a portion of F&C Element requirements relating to insurance products). F&C must document and be prepared to demonstrate that the content is consistent with its needs assessment and training plan and that it meets the requirements of F&C Element in the context of the individual's particular business.

Training plans, programs, actual training materials and outlines, as well as detailed records reflecting how F&C Element plan was developed, implemented, and administered, must be retained as part of the organization's books and records requirements under Rules 17a-3 and 17a-4 of the Securities Exchange Act of 1934. In addition, a firm must retain records documenting covered-person participation in training programs that are part of its Firm Element plan. The nature of such records will vary, but at a minimum must include:

- Written Supervisory Procedures;
- Written Needs Analysis;
- Written Training Plan;
- Training materials used;
- Specific program materials;
- List of expected participants;
- List of participants; and
- Other materials used in planning and delivering F&C Element training.

Since the nature of material used and delivery methods may vary widely, the methods for documentation must vary accordingly (i.e. meeting agendas/rosters, videotapes, third party vendor course material, etc.). Copies of such items must be retained, must be readily accessible, and must include reasonable documentation as to the material

covered, with whom, by whom and when.

Procedure. Oversight of compliance with F&C Element portion of F&C's Continuing Education program will be the responsibility of the CCO. Annually, F&C will conduct a survey of registered persons, the results of which F&C will use as a basis for the preparation of a Needs Analysis and to determine which areas of the member's investment banking and securities business should be addressed in the Written Training Plan. All personnel with direct customer contact in the conduct of securities sales, trading or investment banking activities and their supervisors must be trained in the complexity and/or risk of each product in which F&C deals.

Record keeping - F&C will maintain the following records

- *Written Supervisory Procedures;*
- *Training materials used;*
- *Specific program materials;*
- *List of expected participants;*
- *List of participants; and*
- *Other materials used in planning and delivering F&C Element training.*

The CCO will be responsible for ensuring all registered persons complete their required Continuing Education program for the year. To receive credit, the registered persons must provide evidence of the completion of any self-study or professional course in a field related to the securities industry. Such documentation will be retained in the Continuing Education files.

Participation by Registered Persons

Failure by any registered person to participate in and/or complete the assigned Continuing Education training as determined by the CCO will be handled as follows: Initially, a meeting between the registered person and the CCO will be held at which the currency of and/or any deficiencies noted with respect to the registered person's assigned training program would be discussed. Such meeting will be memorialized and retained in the Continuing Education files for the current year. For registered persons in remote locations, this discussion may be conducted via telephone.

Continued non-compliance will result in a formal, written notification to the registered person demanding compliance and outlining the potential consequences if such person fails to complete the assigned training. Copies of such notification, along with any related correspondence will be retained in the Continuing Education files for the current year.

Ultimate failure by the registered person to complete the assigned training within the

prescribed time period will result in a fine or possible termination.

At year-end, the CCO will review the results of its training program, noting those areas which appeared to be problematic and/or any shortfall in the stated objectives of F&C Element. Identified issues will be addressed in the subsequent needs analysis or other training/planning materials developed by the member.

Specific Supervisory Responsibilities

Function: Personnel

Title: Compliance Officer and CCO

Location: Minneapolis, MN

Registrations: 4, 7, 24, 55, 63, 66, 87

Effective Date: July 16, 2014

RESPONSIBILITIES

- Promptly submit the necessary information to CRD/FINRA to maintain proper registration of all representatives.
- Conduct background checks of all potential registered persons.
- For new registered persons, ensure a copy of the most recent Form U-5 terminating their registration is obtained from the registered representative or his/her former member firm, if applicable.
- Submit fingerprints to FINRA for all representatives.
- Ensure Form U-5 is filed with FINRA within 30 days of the termination of a registered person and that a copy of the U-5 is provided to such person.
- Obtain at least annually, information from each representative regarding private securities transactions and outside business activities, including investment advisory activity.
- Ensure F&C and registered persons are properly registered in the customer's residential states, or an exemption from registration is available.
- Ensure all registered persons are properly registered in the category of representative or principal based on each individual's responsibilities and duties.

- Implement all aspects of F&C's Continuing Education plan for both the Regulatory Element and F&C Element.
- Conduct an annual review of the previous year's Continuing Education program and implement changes as necessary.
- Ensure all representatives are promptly notified of required Regulatory Element Computer Based Training (CBT) and monitor the progress and completion of the training within the 120-day window.
- Monitor all registered persons to ensure any who have been or become the subject of significant disciplinary action are properly reentered in the Regulatory Element.
- Monitor the activities of any "inactive" registered person to ensure such persons are not acting in any capacity requiring registration and ensure any "inactive" registered persons is not compensated for securities business.
- Maintain records indicating representative's participation in F&C Element of the member's Continuing Education program.
- Maintain copies of relevant documentation, program materials, media, etc for each aspect of the member's Continuing Education program.
- Monitor new and existing registered persons for events that may trigger review for special or heightened supervision. If they are selected for special supervision, ensure requirements of the plan are completed and documented.

7. COMMUNICATIONS WITH THE PUBLIC

Requirement. [FINRA Rule 2210](#) governs broker dealers' communications with the public including communications with retail and institutional investors. The rule provides standards for the content, approval, recordkeeping and filing of communications with FINRA. FINRA Rule 2210 went through material revisions which were effective in 2013, which changed the previous six separate categories of advertisement, sales literature, correspondence, institutional sales material, independently prepared reprint and public appearance into just three separate categories of retail communication, institutional communication and correspondence.

Policy. F&C will comply with all requirements under FINRA Rule 2210.

7.1. Retail Communications

Requirement. A member's responsibility with regard to the use and distribution of retail communications and other communications with the public are contained in FINRA Rule 2210, MSRB Rule G-21. The previous terms "advertisement" and "sales literature" generally fall under the definition of "retail communication." In addition, to the extent that a firm distributes or makes available a communication that previously qualified as an independently prepared reprint to more than 25 retail investors within a 30 day calendar-day period, the communication also falls under the definition of "retail communication."

Retail communication includes 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" includes any person other than an institutional investor, regardless of whether the person has an account with the firm. This includes communication previously categorized as "advertisement" such as material published, or designed for use, in a newspaper, magazine or other periodical, radio, television, telephone or tape recording, videotape display, signs or billboards, motion pictures, telephone directories (other than routine listings), or other public media. It also includes communication previously defined as "sales literature", including , but is not limited to, circulars, research reports, market letters, performance reports or summaries, form letters, standard forms of options worksheets, seminar texts, telemarketing scripts and reprints or excerpts of any other advertisement, sales literature or published article.

General Guidelines

All communications must meet the general standards of good taste and accuracy and

should fairly represent the products or services included in the communication. The communications are required to be fair and balanced, and provide a sound basis for evaluating the facts in regard to any particular security, industry or service, and prohibitions on omitting material facts whose absence would make the communications misleading. Promissory, exaggerated, or false statements as well as language inferring guarantees are not permitted. Projections and predictions are not permitted, except for reasonable price targets and recommendations appearing in or taken from research reports. Past performance is not a guarantee of future performance and should be identified as such if included in advertising or sales literature. Portraying the performance of past recommendations or actual transactions must include an acceptable universe over a reasonable period of time.

Required Information

All retail communications (advertisements and sales literature) will contain the name of F&C. "Blind" ads are not permitted except for recruiting personnel. Exceptions to use of F&C's name must comply with FINRA Rule 2210(f) that deals with generic, derivative, and other potential variations on F&C's name. Sales literature is also required to include the name of the person or firm preparing the material, if other than F&C, and the date on which it is

first published, circulated, or distributed. If the information in the material is not current, this fact should be stated. Inclusion of other names (such as an RR's separate corporation) in retail communications (advertising and sales literature) regarding F&C's services may be permitted but the F&C name must be prominent.

Approval Before Publication - There are special filing or approval requirements for certain products and broker-dealers, as outlined below. There are two specific requirements for all advertising or sales literature filed with FINRA:

- o All retail communications to be submitted to the FINRA must be approved by the designated supervisor before submission to FINRA.
- o The actual or expected date of first use or publication must be included with the FINRA filing.

FINRA rules should be consulted for specific requirements and some exclusions from the requirements.

Procedure.

Retail Communication (Advertising) – The Branch Manager and/or Compliance must approve all retail communication before publication or use. Compliance will maintain a file of all approved retail communication. These include communications sent to 25 or more retail investors within any 30 calendar-day period. "Retail investor" includes any

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

A copy of the approved retail communication will be maintained in a branch file. F&C research reports and updates may be sent to customers without prior approval as long as (i) the materials have not been altered, redacted, highlighted, or commented upon; and (ii) the current price of the security is noted on a cover sheet as explained in the following section.

The FINRA Advertising Department acknowledges each filing in writing and makes a determination of whether the material complies with applicable standards. Specifically, when the Advertising Department reviews material submitted in response to a required or voluntary filing, it advises the member in writing whether the material meets applicable standards. In some instances, Advertising will suggest changes to an advertisement or a piece of sales literature. If Advertising has suggested changes, the member must make such changes before the advertisement/sales literature is used again.

The following types of material are excluded from the filing requirements:

- 1) Advertisements or sales literature solely related to changes in a member's name, personnel, location, ownership, offices, business structure, officers or partners, telephone or teletype numbers, or concerning a merger with, or acquisition by, another member.
- 2) Advertisements or sales literature that do no more than identify the NASDAQ symbol of the member and/or of a security in which the member is a NASDAQ registered market maker.
- 3) Advertisements or sales literature that do no more than identify the member and/or offer a specific security at a stated price.
- 4) Material sent to branch offices or other internal material that is not distributed to the public.
- 5) Prospectuses, preliminary prospectuses, offering circulars and similar documents used in connection with an offering of securities which has been registered or filed with the Securities and Exchange Commission or any state, or which is exempt from such registration, except that an investment company prospectus published pursuant to Rule 482 under the Securities Act of 1933 shall not be considered a prospectus for purposes of this exclusion.
- 6) Advertisements prepared in accordance with Section 2(10)(b) of the Securities Act of 1933, as amended, or any rule hereunder, such as Rule 134, unless such advertisements are related to options, direct participation programs or securities issued by registered investment companies.
- 7) Material that refers to investment company securities or options solely as part of a listing of products and/or services offered by the member.

It is not necessary to file with the FINRA any retail communication (advertising and sales literature) that has been filed previously, provided (i) the material is used without any changes; (ii) a copy of the FINRA's original approval is submitted to Compliance; and (iii) Compliance approves the material.

Procedure.

Mutual Fund/Variable Contract Advertisements and Sales Literature: F&C must file advertisements and sales literature concerning registered investment companies (including mutual funds, variable contracts and unit investment trusts) with the FINRA Advertising Department within 10 days of first use or publication. Filing in advance of use is recommended. F&C is not required to file advertising and sales literature that have been filed previously by the underwriter, the distributor, or another entity; provided that the material is used without change.

Public Direct Participation Programs: F&C must file advertising and sales literature concerning public direct participation programs as defined in NASD Rule 2810 with the FINRA Advertising Department for review within 10 days of first use or publication. Filing in advance of use is recommended. F&C need not file for review advertising and sales literature, which has been filed by the sponsor, general partner or underwriter of the program or by another member; provided that the material is used without change.

Communications Regarding Unlisted REITs & DPPs: See Section 7.10.3 for more details about communications with the public for unlisted REITs and DPPs.

Options material used before delivery of the options disclosure document must be submitted 10 days before first use for approval CMO advertising 10 days before first use for approval.

Government Securities - Government securities advertising must be submitted for review within 10 days of first use.

There are other requirements regarding advertising of certain products including CMOs, municipal securities, mutual funds, and options. Refer to those specific sections for further information.

Disclosure of Prices for Recommended Corporate Securities

In communications where corporate securities are recommended, the price of the security at the time the recommendation is communicated must be disclosed. Although this requirement does not normally extend to other securities mentioned in the communication, the prices of such securities may be required if price information is deemed "material" and necessary to make the communication not misleading.

Use of Outside Advertising or Sales Literature

Advertising or sales literature provided by outside entities and intended for re-publication with the name of F&C or an employee requires the prior approval of Compliance. A copy of the approved item including the approval and date of approval will be included in F&C's central advertising file.

FINRA and SIPC Membership Required on All Advertising

Members of the Association are prohibited from using the name of the Association on letterheads, circulars or other advertising matter except as authorized by the Board of Governors. The use of the Association's name is generally permitted for the purpose of identifying F&C's membership in the Association in such material as trade directories, stationery and letterheads, booklet covers, sales literature headings, mastheads of market letters, etc. It may not be used as an implied indication of the Association's approval of a firm's business practices, or of securities offered for sale or other such activities. All advertising must include a notation that F&C is a member of the FINRA and SIPC. For example, "Member, FINRA and SIPC," appearing below F&C name.

Telemarketing Scripts

All scripts used for telemarketing calls require the approval of Compliance before first use. The section titled "Cold Callers" includes further information regarding the use of scripts and callers.

Scripts

Scripts used for the purpose of contacting the public are subject to the requirements governing sales literature as outlined in the section "Advertising And Sales Literature." The general requirements include the following:

- *Any scripts involving options require the approval of the CROP prior to use*
- *Scripts for non-option products require the approval of Compliance or the designated supervisor before use*
- *Scripts must clearly include the following, at the beginning or in the introductory portion of the script:*
 - *the caller's identity*
 - *F&C's name*
 - *the address or phone number of the branch office where the caller may be contacted*
 - *a statement that the purpose of the call is to solicit interest in a security*

These disclosures are not required for a script used by an RR who calls existing customers.

7.2. Pre-recorded Phone Solicitations

Policy. F&C does not permit the use of pre-recorded telephone solicitations.

7.3. Telephone Solicitation Restrictions

Policy. F&C and its employees are subject to restrictions (described below) that govern telephone solicitations as well as unsolicited facsimile advertisements to residences. "Telephone solicitation" is defined as a telephone call initiated for the purposes of encouraging the purchase of or investment in property, goods, or services.

7.4. Requirements and Restrictions

Procedure. *The general requirements include the following:*

- *The caller must have a Series 7 securities license and be employed by F&C (or have an independent contractor agreement with F&C). F&C does not permit RRs to hire "cold callers" from outside F&C.*
- *The caller must provide the called party, at the beginning or in the introductory portion of the script, the name of the caller; the name of the person or entity on whose behalf the call is being made; a telephone number or address at which the caller may be contacted; and disclosure that the purpose of the call is to solicit the purchase of securities or related services.*
- *Telephone solicitations to residences may not be made before 8:00 a.m. or after 9:00 p.m. in the time zone of the called party's location.*
- *A "Do Not Call" list must be established that includes the names of individuals who have specifically requested they not be called for solicitations.*
- *A facsimile transmission must include, in a margin at the top or bottom of each transmitted page or on the first page of the transmission, the date and time it is sent and the identification of the business, other entity, or individual sending the message and the telephone number of the sending machine or of the sender.*
- *Prerecorded calls to residences are prohibited.*
- *The telephone number of the sender may not be a 900 number or other number where the called party will incur a charge for notifying the sender of a desire not to be called. Consumers may not be charged to protect their privacy.*

7.5. Retail communication/Advertisements Involving Non-Branch Locations

FINRA rules specify that any non-branch location referenced in a retail communication by its local telephone number and/or local post office box is permitted if the retail communication does NOT include the street address of the non-branch location and INCLUDES the address and telephone number of the branch office or OSJ directly supervising the non-branch location.

F&C's central office address and telephone number may be substituted for the supervisory branch or OSJ only with the approval of Compliance. Refer to the chapter "Branch Offices" for further information.

Procedure. *Before granting approval all retail communication from non-branch locations will be screened to ensure that the non-branch street address is not included and only the OSJ/Branch Office address is present in the advertisement.*

7.6. Testimonials

Policy. There are specific requirements when using testimonials in communications with the public. Compliance should be contacted before preparing any communications that include testimonials. F&C does consider LinkedIn endorsements as a form of testimonials, Brokers with LinkedIn accounts must hide endorsements from the public.

7.7. Outgoing Correspondence

Requirement. Correspondence Defined FINRA Rule 2210 defines "correspondence" as "any written (including electronic) communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period. "Correspondence includes written and other communications to 25 or fewer customers or prospective customers, regardless of the method of transmission (mail, facsimile, personal delivery, courier services, electronic mail, etc.). Correspondence also includes portfolio summaries and other types of information originated by the RR and provided to 25 or fewer customers or prospective customers. In addition, FINRA Rule 2210 covers any type of written communication so, for example, a seminar handout provided to 25 or fewer retail investors within a 30 calendar-day period would be considered correspondence under this definition.

7.8. Incoming Correspondence

Policy. All incoming written correspondence will be opened and reviewed by a designated reviewer appointed by the Branch Manager.

Procedure. This review includes letters, facsimiles, courier deliveries, and other forms of written communication. The following guidelines for review apply:

- Correspondence identified as "Confidential" will be opened and reviewed.
- Obvious non-customer correspondence (bank statements, advertising, etc.) may be forwarded directly to the addressee at the discretion of the reviewer.
- Complaints will be immediately forwarded to the Branch Manager and to

Compliance.

- Checks or securities will be immediately deposited with the appropriate operations personnel.
- Original customer correspondence of a material nature will generally be retained for F&C's files, and the addressee will receive a copy.

7.8.1. Personal Mail

Policy. Employees should direct all personal mail to their home address. Personal mail is subject to incoming correspondence review policies.

7.8.2. Subpoenas and Summons

Policy. Only the following officers may accept subpoenas or summons: Chief Executive Officer, Chief Financial Officer, CCO, AMLCO, and General Counsel. (See Section 3 – AML Compliance for more information).

7.8.3. Internal–Use Only Information

Policy. Information marked "internal use only" may not be sent or otherwise provided to individuals outside F&C.

7.9. Communications Books and Records

Requirement. A member is required to keep a separate file of all retail communication, which includes the name(s) of the person(s) who prepared them and/or approved their use. The retail communication must be kept in the file for a period of three years from the date of each use. A member is required to have a registered principal approve by signature or initial, prior to use, each item of retail communication.

Policy. F&C will keep a separate file of all retail communication, which includes a copy of the communication and the dates of first and (if applicable) last use, the name(s) of the person(s) who prepared them the name of the registered principal who approved the communication and the date approval given for a period of three years from the date of each use. F&C will have a registered principal approve by signature or initial, prior to use, each item of retail communications.

Procedure. *It will be the responsibility of the CCO to ensure F&C complies with:*

- *the one-year advance filing requirement*
- *the requirement to file all advertisements and sales literature concerning mutual funds within 10 days of first use.*
- *the requirement to file all advertisements and sales literature concerning public direct participation programs within 10 days of first use.*
- *ensuring any suggested changes are made to the material prior to dissemination.*

The branch manager or designated principal, during their review of outgoing mail, will compare any retail communication enclosures directed to customers against the file of approved material. Any discrepancies will be discussed with the associated person. Unapproved material will not be mailed.

7.10. Electronic Communications

Requirement. Electronic communications are subject to the same compliance standards as written communications. Specifically, they are subject to FINRA review and endorsement, record keeping, and filing requirements. A personal electronic communication is considered correspondence if it pertains to the business of the member. As such it is subject to the general standards of FINRA Rule 2210 and the written review and endorsement requirement of NASD Rule 3110.

SEC Rule 17a-4 requires F&C to preserve originals of all communications received and copies of all communications sent that relate to the members business. F&C may preserve the communication in hard copy, microfiche, microfilm or WORM (Write Once Read Many) optical storage technology. For record retention purposes under Rule 17a-4, the content of the electronic communication is determinative of the maintenance requirement, and therefore broker/dealers must retain only those e-mail and Internet communications (including inter-office communications) which relate to the broker/dealer's "business."

E-Mail transmissions can generally be categorized as "individual" or "group" transmissions. Either category of non-securities related transmissions (those not pertaining to the solicitation or execution of any securities transaction) are generally not required to be approved or reviewed under NASD Rule 3110. If the transmission otherwise relates to F&C's business, F&C is required by SEC Rule 17a-4 to maintain copies of the communication, including inter-office memoranda and communications.

Individual transmissions that pertain to the solicitation or execution of securities transactions must be reviewed and endorsed by a registered principal and must comply with the content standards of FINRA Rule 2210. Group transmissions (similar transmissions sent to more than one person) generally are considered sales literature and must be reviewed/approved in compliance with FINRA Rule 3110.

Communications posted by members or their associated persons on electronic bulletin boards would be considered advertisements because such material can be viewed by anyone with access to these services. A registered principal must review and approve all advertisements before use. Depending on the content, the advertisement may be subject to filing requirements.

FINRA considers a chat room to be a public forum using an electronic medium. As interactive, extemporaneous conversations, chat rooms are not generally considered correspondence or retail communication. However, as with other oral communications,

registered persons and member firms are accountable under FINRA Rules and the general anti-fraud provisions of the Securities Act and any misleading or fraudulent statements are prohibited.

An Internet web site poses an interesting regulatory risk in that it can be an retail communication/advertisement, a communication medium and a "place" to conduct business. An Internet web site that provides information to the public but does not enable a firm to conduct a securities business is generally considered a form of retail communication/advertising. The site's content is subject to the general and specific standards of communications with the public in FINRA Rule 2210. A site on a commercial on-line service such as America Online or a personal web site would also generally be considered an advertisement. As with any communication with the public, advertising on the Internet is subject to the approval, record keeping and (depending on the content) filing requirements of FINRA Rules.

Policy. F&C will comply with FINRA and NASD advertising regulations.

7.10.1. Internet Access

Procedure. F&C provides Internet access to RRs and employees through F&C's computer network. This is the only Internet access F&C personnel may use from any F&C office. RRs and employees are prohibited from accessing the Internet through other access services while on F&C premises.

The Internet may only be used for legitimate business purposes. RRs and employees may not access sexually-oriented sites or other inappropriate sites from F&C's offices. F&C has installed filtering software to limit access to certain websites. RRs and employees are prohibited from attempting to circumvent that software. F&C reserves the right to track each person's use of the Internet through any legal means, including but not limited to, examination of any computer used on F&C premises whether owned by F&C or not. Software (including screen savers and wallpaper) may not be downloaded from the Internet without the express written permission of F&C's IT department.

7.10.2. Email Correspondence

Procedure. F&C maintains an e-mail account for its registered persons. Registered persons may communicate with investors, clients and others via e-mail. Due to the inherent difficulty in supervising such activity, F&C does implement the use of software designed to allow F&C to screen and store electronic communications consistent with the requirements of SEC Rule 17a-4.

F&C's email correspondence generally involves communication between F&C's registered representative(s) and actual/potential customers F&C will use a risk-based approach to reviewing email correspondence; i.e., the compliance department, along with the branch

managers, will review approximately ten percent (10%) of email correspondence on a weekly basis unless the volume and nature of F&C's business activity indicates a greater percentage or frequency is necessary as determined by the CCO. All e-mail review will be conducted through the software made available by the third party e-mail surveillance provider (Smarsh). Branch Managers are responsible for reviewing all RRs under their branch. Compliance will monitor e-mails from Branch Managers, employees, and management of F&C. Items of importance or potential rule violations are escalated to the CCO. The CCO is responsible for ensuring that all e-mail is being reviewed and monitored and reviewing escalated e-mails.

RRs and employees may use F&C's electronic mail system to send and receive business communications to and from customers and co-workers. (However, RRs cannot accept buy or sell orders through e-mail.) The email system should not be used for personal communications. RRs and employees are prohibited from sending or receiving e-mail through any other provider (such as AOL, MSN, or Yahoo) for business related communications.

All incoming and outgoing e-mail communications are subject to the standards, guidelines, and restrictions described in this manual. If the same e-mail is intended to be sent to more than 25 customers, such an e-mail will be considered "retail communications," and must receive supervisor approval before use in accordance with Firm requirements. E-mail communications must not include sexually-oriented material or other inappropriate content. F&C has installed filtering software to detect inappropriate e-mail content. RRs and employees are prohibited from attempting to circumvent that software. F&C reserves the right to review every incoming and outgoing e-mail message, whether or not the message is "flagged" for inappropriate content.

At least annually, F&C will require an attestation from all registered persons that they understand and have complied with the policy regarding communications with the public, including the use of social media.

7.10.3. Communications Regarding Unlisted REITs & DPPs

Policy. F&C acknowledges FINRA's heightened focus on communications with the public regarding real estate programs. These communications have emphasized the distributions or yield a customer receives but fails to adequately explain the some of the distribution constitutes return of principal or sufficient discussions on the risks associated with investing in the products. In short, a fair and balanced communication is not being given to the customers in accordance with FINRA 2210.

Procedure. F&C associated persons will be responsible for providing a fair and balanced

communication to customers in line with FINRA Rule 2210. Branch Managers are responsible for monitoring and ensuring customer communications meeting the requirements of FINRA Rule 2210. In regards to Unlisted REITs and DPPs, Branch Managers and associated persons will specifically focus on the eight areas highlighted in FINRA NTM 13-18. These areas have been briefly summarized below, but all associated persons should review the NTM to ensure they are fully aware of the requirements.

Disclosure – Associated persons should be mindful that their communications accurately and fairly explain how the product operates, and that these descriptions are consistent with the products prospectus. Communications that highlight the benefits of an investment must also include a discussion of its risks. This “risk disclosure” must be presented in a clear and prominent manner; it should not be relegated to a footnote. Furthermore, providing the risk disclosure in a separate document, such as the prospectus, does not substitute for the required risk disclosure.

Distribution Rates – Associated persons should be advised that Rule 2210(d)(1)(B) prohibits false, exaggerated, unwarranted, promissory or misleading claims. This means that the rule prohibits misleading statements about the amount or composition of the real estate product’s distributions. Additionally you may not imply that a distribution rate is a “yield”, “current yield”, or any other term that would make this product comparable to a fixed income investment such as a bond or note. Any communication including distribution rates will only be in compliance with F&C policy and FINRA Rule 2210 if it discloses:

- that distribution payments are not guaranteed and may be modified at the products discretion;
- if the distribution rate consists of return of principal or borrowings, a breakdown of the distribution, including cash flows from investments, operations, and portions of return of principal;
- the time period during which the distributions have been funded from return of principal (including offering proceeds), borrowings or any sources other than cash flows from investment or operations;
- if the distributions include a return of principal, that by returning principal to investors, the program will have less money to invest, which may lower its overall return; and
- if distributions include borrowed funds, that because borrowed funds were used to pay distributions, the distribution rate may not be sustainable.

Finally, communications regarding annualized distribution rates may not be used until the product has paid distributions at a minimum equal to the rate for at least two consecutive full quarterly periods.

Stability/Volatility Claims – Communications that state or imply that the product is stable or that its volatility is limited are prohibited, unless the associated person can provide a sound basis to evaluate this claim. FINRA has noted that the fact that a product offers its securities at par value, or at another relatively stable price, does not evidence stability in the value of the underlying assets.

Redemption Features and Liquidity Events – Associated persons should be cautious about making statements about redemption features. You must also prominently highlight the restrictions and limitations of this feature.

Performance of Prior Related Real Estate Products – Associated persons are not permitted to “cherry-pick” the prior performance of previous products. If the associated persons wish to provide previous product performance, they must include all related or affiliated products and these products must be clearly identified as past products.

Use of Indices and Comparisons – Communications concerning real estate products may not use a real estate index’s performance to demonstrate the sector’s risk or return characteristics. Any other comparisons need to highlight all material differences including, but not limited to, costs, expenses, liquidity, safety, guarantees or insurance, fluctuation or principal or return and tax features.

Pictures and Specific Properties – All pictures of properties in a communication must be pictures of properties actually held within the product and not an affiliated product or product’s sponsor.

Capitalization Rates – A communication may include a capitalization rate for an individual property within a real estate program if the rate is based on current information contained in the prospectus, and the communication explains how the rate was calculated, that the rate applies to the individual property, and that it does not reflect a return or distribution from the REIT or DPP itself.

7.10.4. Social Media

Policy. F&C has adopted procedures for the use of Social Media based on industry resources as well as input from the Social Networking Task Force established by FINRA in 2009 which was comprised of both industry representatives and FINRA staff, to discuss how firms might use social media for legitimate business purposes while continuing to ensure investor protection.

A. Interactive Electronic Forums and Communications With Public — Supervising Social Media Sites

It is important to note foremost that the content provisions of FINRA's communications rules apply to interactive electronic communications that F&C or our personnel send through social media sites. Therefore, we have established the following written procedures and systems that are reasonably designed to ensure compliance with FINRA's communication rules.

Procedure. *F&C does permit RRs to have a LinkedIn account. This based on the assumption that LinkedIn accounts are business related and do not have as much as a social aspect as Facebook, twitter, etc. RRs with LinkedIn accounts are required to submit the account to Compliance for pre review and approval. Accounts must be kept "static" (non-interactive) in nature and any changes to the account must be submitted and approved by Compliance before making the changes.*

On a periodic basis or as needed, the CCO or a designated compliance officer will perform a search on all RRs associated with F&C to determine if any RR holds any social media sites not previously approved by Compliance. At this time, all other social media accounts are prohibited for business purposes.

RRs and employees are also prohibited from participating in chat rooms, posting messages on electronic bulletin boards, sending instant messages, or otherwise communicating over the Internet while on F&C's premises (except for using F&C's e-mail system as described above). If RRs or employees access the Internet from home or some other non- Firm location, they are prohibited from advertising, soliciting new customers, contacting existing customers, giving investment advice of any nature, or commenting on stocks or companies through e-mail, in chat rooms, on bulletin boards, in instant messages, through a personal website, or any similar means.

7.11. Speaking Engagements/Media Participation- Preapproval of Scripts and Outlines

Requirement.

When sponsoring or participating in a seminar, forum, radio or television interview, or when otherwise engaged in public appearances or speaking activities that are unscripted and do not constitute retail communications, institutional communications or correspondence ("public appearance"), persons associated with members must follow the standards that 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.

Policy. On occasion, registered persons may be invited to participate or speak at a

meeting, public forum or media event. All member communications with the public must be based on principles of fair dealing and good faith and should provide a sound basis for evaluating the facts in regard to any particular security or securities or type of security, industry discussed, or service offered. No material fact or qualification may be omitted if the omission, in the light of the context of the material presented, would be misleading.

1) Exaggerated, unwarranted or misleading statements or claims are prohibited in all public communications of members. When sponsoring or participating in a seminar, forum, radio or television interview, or when otherwise engaged in public appearances or speaking activities which may not constitute advertisements, members and persons associated with members shall nevertheless adhere to the following standards:

- In judging whether a communication or a particular element of a communication may be misleading, several factors should be considered, including but not limited to:
 - the overall context in which the statement or statements are made. A statement made in one context may be misleading even though such a statement could be perfectly appropriate in another context. An essential test in this regard is the balance of treatment of risks and potential benefits.
 - the audience to which the communication is directed. Different levels of explanation or detail may be necessary depending on the audience to which a communication is directed, and the ability of the member given the nature of the media used, to restrict the audience appropriately. If the statements made in a communication would be applicable only to a limited audience, or if additional information might be necessary for other audiences, it should be kept in mind that it is not always possible to restrict the readership of a particular communication.
 - the overall clarity of the communication. A statement or disclosure made in an unclear manner obviously can result in a lack of understanding of the statement, or in a serious misunderstanding. A complex or overly technical explanation may be worse than too little information.

2) Claims and Opinions. Communications with the public must not contain promises of specific results, exaggerated or unwarranted claims or unwarranted superlatives, opinions for which there is no reasonable basis, or forecasts of future events which are unwarranted, or which are not clearly labeled as forecasts.

3) Testimonials. In testimonials concerning the quality of a firm's investment advice, the following points must be clearly stated in the communication:

- The testimonial may not be representative of the experience of other clients.
- The testimonial is not indicative of future performance or success.
- If more than a nominal sum is paid, the fact that it is a paid testimonial must be indicated.
- If the testimonial concerns a technical aspect of investing, the person making the

testimonial must have knowledge and experience to form a valid opinion.

4) Offers of Free Service. Any statement to the effect that any report, analysis, or other service will be furnished free or without any charge must not be made unless such report, analysis or other service actually is or will be furnished entirely free and without condition or obligation.

5) Claims for Research Facilities. No claim or implication may be made for research or other facilities beyond those which the member actually possesses or has reasonable capacity to provide.

Procedure. *In the event a registered person of F&C is requested to speak or participate in a meeting or other public forum, the CCO or designated compliance officer must be notified and must approve of such participation. Pre-approval includes items such as the information and/or materials to be discussed or disseminated, an outline or script that identifies the subjects which will be addressed by the registered person, and a profile of the intended audience. The Compliance will attempt to ensure, based on all relevant facts, that the information to be disseminated is within the general guidelines regarding communications with the public and that the registered person is sufficiently knowledgeable about the subject to provide complete and competent disclosure. Copies of all information submitted for approval will be retained along with evidence of payment in the event the registered person is compensated for such speech or participation.*

If attendees of a meeting/ seminar participate in a client transaction introduced by F&C, then the meeting/seminar and advertisements for it are deemed communications on behalf of F&C's investment banking business. Consequently, both the meeting/seminar presentation and the advertisements must comply with the standards for communications with the public set forth in Rule 2210.

The content of the advertisements and remarks at the seminar (even if they are made without the aid of a script, outline, or notes) must adhere to the general and specific standards for communications included in the Rule. For example, the content must be accurate and must provide sufficient information for the attendees to evaluate the facts with respect to the securities products or services discussed. The registered person must disclose that the client transaction will be processed through F&C. If the seminar concerns investment company securities (i.e., mutual funds) and direct participation programs (i.e., tax credit limited partnerships), F&C must file those sections of the seminar materials within 10 days of first use.

7.12. Direct Contact with the Public/Cold-Calling

Requirement. FINRA members, including F&C, that engage in telephone solicitation to market their products and services are subject to the requirements of the Federal Communications Commission (FCC) and Federal Trade Commission (FTC) rules relating

to the telemarketing practices and the rights of telephone consumers and shall refer to FCC rules for specific restrictions on telephone solicitations. NASD Rule 2212(a) requires that each member or person associated with a member firm refrain from making outbound calls to residences for the purpose of soliciting the purchase of securities or related services at any time other than between 8 a.m. and 9 p.m. local time, without prior consent. Rule 2212, the Telemarketing Rule, was adopted for members and their associated persons that engage in telephone solicitations to sell their products and services. The purpose of the rule is to prevent members from engaging in certain deceptive and abusive telemarketing practices while allowing for legitimate telemarketing practices.

Policy. F&C will comply with the requirements of NASD Rule 2212 which outlines the restrictions to which registered representatives are subject when engaging in telemarketing activities.

Procedure. F&C prohibits members or associated persons from:

1) Making outbound telephone calls to the residence of any person for the purpose of soliciting the purchase of securities or related services at any time other than between 8 a.m. and 9 p.m. local time at the called person's location, without the prior consent of the person; or

2) Making an outbound telephone call to any person for the purpose of soliciting the purchase of securities or related services without disclosing promptly and in a clear and conspicuous manner to the called person;

- *the identity of the caller and the member firm,*
- *the telephone number or address at which the caller may be contacted, and*
- *that the purpose of the call is to solicit the purchase of securities or related services.*

Further, an interpretation of NASD Rule 2110 prohibits members and their associated persons from engaging in communications with investors that constitute threats, intimidation or the use of profane or obscene language or calling a person repeatedly on the telephone to annoy, abuse or harass the called party. In addition, Rule 3110 requires that each member make and maintain a centralized do-not-call list of persons who do not wish to receive telephone solicitations from the member or its associated persons.

7.13. Senior Investors

Requirement. FINRA urges firms to review and, where warranted, enhance their policies and procedures for complying with FINRA sales practice rules, as well as other applicable laws, regulations and ethical principles, in light of the special issues that are common to many senior investors. *Notice 07-43* also highlights, for the consideration of FINRA's member firms, a number of practices that some firms have adopted to better serve these

customers.

Policy. F&C will maintain policies and procedures that comply with FINRA's Sales Practice rules as they relate to the special issues of senior investors.

***Procedures.** F&C understands that, as with other investors, levels of wealth, income and financial sophistication vary among older investors. F&C owes 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.*

Suitability

FINRA [Rule 2310](#) requires that in recommending "the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable" for that customer, based on "the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs." The rule also requires that, before executing a recommended transaction, a firm must make reasonable efforts to obtain information concerning the customer's financial status, tax status, investment objectives and "such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer."

Although the rule does not explicitly refer to a customer's age or life stage, both are important factors to consider in performing a suitability analysis. As investors age, their investment time horizons, goals, risk tolerance and tax status may change. Liquidity often takes on added importance. And, depending on their particular circumstances, 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. Therefore, firms cannot adequately assess the suitability of a product or transaction for a particular customer without making reasonable efforts to obtain information about the customer's age, life stage and liquidity needs.

Communications

FINRA [Rule 2210](#) and NYSE 472 prohibit 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. And, they should cover how approved designations may be used.

F&C does not allow the use of any title or designation that conveys an expertise in senior investments or retirement planning.

High-Pressure Sales Seminars Aimed at Seniors

The use of aggressive or misleading sales tactics aimed at seniors, particularly the use of "free lunch" seminars that use high-pressure sales tactics to promote products that may not be suitable for all persons in attendance is prohibited by F&C. Such high-pressure tactics include attempts to create an artificial or inappropriate sense of urgency around major decisions or commitments (e.g., the use of phrases such as "limited time offer" or "you have to sign up today") or that heighten or exaggerate typical fears of older investors (e.g., the return of double-digit inflation or becoming financially dependent on family members).

7.14. Institutional Sales Literature and Correspondence

Requirement. FINRA Rule 2210(a)(3) generally defines “institutional communication” as written (including electronic) communications that are distributed or made available only to institutional investors. FINRA excludes a firm’s internal communications from the definition of “institutional communication” though firms must still supervise these communications. All institutional sales material and correspondence are subject to the content standards of [Rule 2210\(d\)\(1\)](#) and the applicable Interpretive Materials under [Rule 2210](#), and all correspondence is subject to the content standards of [Rule 2210\(d\)\(3\)](#). Firm supervisory policies and procedures concerning internal training and education materials must be reasonably designed to ensure that such materials are fair, balanced and accurate.

The definition of “institutional investor under FINRA Rule 2210 specifies that “no member may treat a communication as having been distributed to an institutional investor if the member has reason to believe that the communication or any excerpt thereof will be forwarded or made available to any retail investor.” The “reason to believe” standard does not impose an affirmative obligation on firms to inquire whether an institutional communication will be forwarded to retail investors every time such a communication is distributed. Rather, the firm should have policies and procedures in place reasonably

designed to prevent institutional communications from being forwarded to retail investors, such as the use of legends warning the recipient that the communication is for institutional investor use only.

Procedure. *It is the responsibility of the CCO to ensure F&C complies with:*

- *the filing requirements for institutional communications;*
- *the recordkeeping requirements for institutional communications;*
- *the content standards required by the Rule; and,*
- *the spot check procedures.*

7.15. “Internal Use Only”/“Not for Public Distribution” Materials

Requirement. “Internal Use Only/Not for Public Distribution” materials are advertising and/or sales literature intended only for review by registered persons. FINRA Regulation reviews internal-use-only material taking into consideration the intended audience of the communication (i.e., registered individuals) and the context in which the communication will be used. Material changes to a communication that has already been reviewed and found consistent with standards by FINRA Regulation may necessitate re-submission. For example, a member may choose to voluntarily submit to FINRA Regulation an internal-use-only piece regarding mutual funds; however, if F&C then decides to use the same piece with members of the public, re-submission would be necessary for compliance with the filing requirements.

Policy. Dissemination of “Internal Use Only/Not for Public Distribution” materials to customers is prohibited at F&C. Any deviation from this policy will be handled on a case-by-case basis by the CCO, and may include submission (or re-submission) of the proposed material to FINRA Regulation for review.

7.16. Outgoing Mail Principal Review

Policy. All outgoing correspondence, including letters, memos and hand written notes pertaining to a client transaction, must be reviewed and approved in advance of mailing unless such material, i.e. form letters, have previously been approved.

Procedure. *All associated persons must submit correspondence to the Branch Manager for review and approval prior to dissemination, unless a template has been previously approved and no material changes have been made. However, it is F&C’s policy that when a new transaction is initiated, language describing the transaction is generated and approved for use by the representative(s) to begin the process of presentation to institutions or high net worth individuals. The representative can commence presentations of the transaction utilizing the approved language. Any material deviation*

from the approved language must be approved by the CCO prior to being sent. Once an email or hard copy letter is sent, unless previously approved and no material changes are made, a copy will be made, initialed by the Branch Manager as evidence of his review and placed in the Branch electronic or hard copy correspondence file.

Any off-site associated persons must fax a copy of their correspondence to their Branch Manager and receive verbal approval prior to mailing. In the event the Branch Manager determines the correspondence contains inaccurate, promissory or misleading information, the registered representative must edit and resubmit the correspondence for approval. If needed issues with correspondence can be escalated to Compliance. Failure to abide by this policy can result in a fine against the registered representative.

7.17. SIPC Coverage

Requirement. SIPC, a non-profit, membership corporation, was established under the Securities Investor Protection Act of 1970. SIPC is funded by assessments on its members and interest earned on fund assets. The fund is used to protect securities investors of SIPC-member broker-dealers that fail financially. Members whose business consists exclusively of (a) the distribution of shares of registered open-end investment companies or unit investment trusts, (b) the sale of variable annuities, (c) the business of insurance, or (d) the business of rendering investment advisory services to registered investment companies or insurance company separate accounts are not required to be members of SIPC.

Under Article 11, Section 4 of the Securities Investor Protection Corporation's Bylaws, each member of SIPC is required to display continuously the official SIPC symbol in a prominent place at its principal place of business and at each branch office. Additionally, unless otherwise exempt, each member must include a reproduction of the official symbol, the official advertising statement or the official explanatory statement in all advertising as defined in SIPC's Bylaws.

Policy. Based on the securities business of F&C, F&C is covered by SIPC and is subject to the symbol display requirement pursuant to the Securities Investor Protection Corporation's Bylaws, Article 11, Section 4(d)(2).

Procedure. *The CCO is responsible for ensuring the official SIPC symbol is displayed if F&C conducts a securities business with customers and that indications of SIPC protection are evident on any advertising, sales literature or correspondence.*

7.18. Fidelity Bonding

Requirement. FINRA rule 4360 requires that each member required to join the Securities Investor Protection Corporations shall maintain blanket fidelity bond coverage which

provides against loss and has Insuring Agreements covering at least the following:

- a) Fidelity
- b) On Premises
- c) In Transit
- d) Forgery and Alteration
- e) Securities
- f) Counterfeit Currency

2) The fidelity bond must include a cancellations rider providing that the insurance carrier will use its best efforts to promptly notify FINRA in the event the bond is cancelled, terminated or substantially modified.

3) a member's fidelity bond must provide for per loss coverage without an aggregate limit of liability

A member with a net capital requirement of less than \$250,000 must maintain minimum fidelity bond coverage for all Insuring Agreements required by paragraph (a) of this Rule of the greater of (A) 120% of the member's required net capital under SEA Rule 15c3-1 or (B) \$100,000. A member with a net capital requirement of \$250,000 or more must maintain minimum fidelity bond coverage for all Insuring Agreements required by paragraph (a) of this Rule in accordance with the following table:

Net Capital Requirement under SEA Rule 15c3-1	Minimum Coverage
250,000 – 300,000	600,000
300,001 – 500,000	700,000
500,001 – 1,000,000	800,000
1,000,001 – 2,000,000	1,000,000
2,000,001 – 3,000,000	1,500,000
3,000,001 – 4,000,000	2,000,000
4,000,001 – 6,000,000	3,000,000
6,000,001 – 12,000,000	4,000,000
12,000,001 and above	5,000,000

At a minimum a member must maintain fidelity bond coverage for any person associated with the member, except directors or trustees who are not performing acts with the scope of the usual duties of an officer or employer.

A deductible provision may be included in the bond of up to 25% of the coverage purchased by a member. Any deductible amount elected by the member that is greater than 10% of the coverage purchased by the member must be deducted from the member's net worth in the calculation of its net capital.

Member firms must review the adequacy of coverage annually.

Policy. F&C will maintain fidelity bond coverage in compliance with the table noted above. The amount of the bond coverage will be reviewed annually.

Procedure. *The CCO is responsible for ensuring F&C obtains and maintains adequate fidelity bond coverage. The CCO and CFO will conduct an annual review of F&C's bonding coverage to determine the adequacy of the bond by reference to the highest required net capital of the prior year. Any changes to the bonding coverage will be made no more than 60 days after the anniversary (expiration) date (i.e. when payment for coverage is due).*

7.19. Websites

Policy: The firm has a very limited number of websites, currently.

Procedure: The CCO, or his designee, will annually conduct a review of the existing websites to ensure the information provided on the site complies with FINRA rules regarding Retail Communications

Specific Supervisory Responsibilities

Function:	Communications with the Public
Title:	General Securities Principals and CCO
Location:	Minneapolis, MN
Registrations:	4, 7, 24, 55, 63, 66, 87
Effective Date:	July 16, 2014

RESPONSIBILITIES

- Review and initial retail communications.
- For one year after the filing of F&C's initial advertising, ensure all advertising is filed with FINRA ten days prior to first use.
- Ensure any changes suggested by FINRA Advertising Department are made to the material prior to use.
- Where procedures for the review of correspondence do not require review of all correspondence prior to use or distribution, education and training of associated persons as to F&C's procedures governing correspondence will be provided.
- Review and approve information and/or materials to be used by a registered person in connection with a public appearance.
- Monitor registered persons involved in telemarketing to ensure compliance with "cold call" prohibitions, including the maintenance and dissemination of a Do-Not-Call list.
- Review and approve/initial incoming and outgoing correspondence, including electronic transmissions, and maintain copies as evidence of such review.
- Ensure content of website complies with retail communication and disclosure rules.

- Ensure proper use of SIPC symbol in retail communications and at all locations at which the member conducts a securities business.
- Obtain and maintain adequate fidelity bonding coverage.

8. CUSTOMER ACCOUNTS

Requirement. New FINRA Rule 2090 (Know Your Customer) requires firms to "use reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer..." The rule explains that essential facts 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."³

In general, new FINRA Rule 2090 (Know Your Customer) is modeled after former NYSE Rule 405(1) and requires firms to use "reasonable diligence,"⁴ in regard to the opening and maintenance⁵ of every account, to know the "essential facts" concerning every customer.⁶ The rule explains that "essential facts" 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."⁷ The know-your-customer obligation arises at the beginning of the customer-broker relationship and does not depend on whether the broker has made a recommendation.

Policy. Regardless of product or type of transaction, F&C will ensure that customers are receiving fair prices and not being charged unfair or unreasonable commissions. The issue of fairness relative to agency commission charges as well as markups is determined by considering all relevant factors to the transactions. NASD Conduct Rule 2440 requires any member that acts as an agent for its customer to charge only a "fair commission or service charge, taking into consideration all relevant circumstances including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service he may have rendered by reason of his experience in and knowledge of such security and the market therefore". Disclosure does not justify a commission or markup that is unfair or excessive in light of all other relevant circumstances. The commission must be **reasonable** given all the various factors regarding the respective transaction. Regarding minimum commission, the firm generally considers \$50 the **minimum** commission (plus respective ticket charge) for a standard securities transaction though the type of security may also be a factor. The firm monitors commissions daily to ensure they are not over the 5% guideline, which includes roundtrip transactions, though the decision to adjust may include if minimum commission was utilized or a de minimis exemption applied.

8.1. Acceptance of New Accounts

Requirement. FINRA Rule 4512 (preceded by NASD Rule 3110) requires that each member maintain the following:

Customer Account Information

(a) Each member shall maintain the following information:

(1) for each account:

(A) customer's name and residence;

(B) whether customer is of legal age;

(C) name(s) of the associated person(s), if any, responsible for the account, and if multiple individuals are assigned responsibility for the account, a record indicating the scope of their responsibilities with respect to the account, provided, however, that this requirement shall not apply to an institutional account;

(D) signature of the partner, officer or manager denoting that the account has been accepted in accordance with the member's policies and procedures for acceptance of accounts; and

(E) if the customer is a corporation, partnership or other legal entity, the names of any persons authorized to transact business on behalf of the entity;

(2) for each account other than an institutional account, and accounts in which investments are limited to transactions in open-end investment company shares that are not recommended by the member or its associated persons, each member shall also make reasonable efforts to obtain, prior to the settlement of the initial transaction in the account, the following information to the extent it is applicable to the account:

(A) customer's tax identification or Social Security number;

(B) occupation of customer and name and address of employer; and

(C) whether customer is an associated person of another member; and

(b) A member need not meet the requirements of this Rule with respect to any account that was opened pursuant to a prior FINRA rule until such time as the member updates the information for the account either in the course of the member's routine and customary business or as otherwise required by applicable laws or rules.

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

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

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

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

For purposes of this Rule, members shall preserve a record of any customer account information that subsequently is updated for at least six years after the date that such information is updated. Members shall preserve a record of the last update to any customer account information, or the original account information if there are no updates to the account information, for at least six years after the date the account is closed.

Procedure. The registered representative must complete a new account form for new customers which capture all required information. Upon completion, the new account form must be submitted to operations, COO will be responsible for determining that operations is following policy and ensuring complete new account information is obtained for each customer, and will sign the new account form as evidence of his review and approval. If needed, new account forms can be approved by the CCO. Any incomplete form will be rejected and no transactions will be allowed for such customer until complete information is received. This review and acceptance of new account forms must be done prior to the completion of any initial transaction.

8.1.1 Senior Investors

Requirement. New FINRA rules have added additional information requirements and protections for senior investors. Specifically, FINRA Rule 4512 now requires the RR to make reasonable efforts to obtain name and contact information for a Trusted Contact on any new account or updating and existing account. FINRA Rule 2165 also allows firms to place holds on disbursements if reasonable belief of financial exploitation of a customer.

Policy. F&C will maintain policies and procedures that comply with FINRA's new account information and protection against financial exploitation rules as they relate to the special issues of senior investors.

Procedures. *FINRA Rule 4512 requires the firm and its RRs to make reasonable efforts to obtain the name and contact information for a "Trusted Contact" person for any new account or when updating an existing account. Reasonable efforts basically mean at least asking the customer to provide trusted contact name and contact information. It does not prohibit F&C from opening an account if the customer fails to provide the information. FINRA rule 2165 allows F&C to place temporary holds on disbursements of funds or securities from the accounts of specified customers where there is a reasonable belief of financial exploitation of these customers. Should the RRs, supervisors or management identify such situation, they should contact the COO and/or CCO so it may be determined if a hold should be placed on such distributions. If it is determined that such a hold be placed till further parties can be contacted or additional information*

obtained, it should be noted that the hold can only be temporary.

8.2. Review of Transactions

Requirement. All transactions must be reviewed and endorsed in accordance with NASD Rule 3110. Approval of transactions must be evidenced in writing by endorsement of some internal record of the transaction such as endorsing or initialing order tickets, a blotter, copies of confirmations, or some other permanent record.

Policy. All transactions must be reviewed and endorsed by the Branch Manager. Approval of transactions must be evidenced in writing by initialing order tickets, a blotter, copies of confirmations, or some other permanent record. This may also be evidenced by an electronic surveillance system or blotter which retains an audit log of the respective principal who reviewed and/or approved the transaction.

8.3. Holding of Customer Mail

Policy. Upon the written instructions of a customer, F&C may hold mail for a customer who will not be at his or her usual address for the period of his or her absence, but (A) not to exceed two months if the member is advised that such customer will be on vacation or traveling or (B) not to exceed three months if the customer is going abroad.

8.4. Changes in Account Name/Designation or Investment Objectives

Requirement. Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) or change to customer investment objectives shall be made unless the change has been authorized by a member or a person(s) designated under the provisions of FINRA rules. Such person must, prior to giving his or her approval of the account designation/investment objective change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in [SEC Rule 17a-4](#).

For purposes of this paragraph (j), a person(s) designated under the provisions of FINRA rules to approve account name or designation changes must pass a qualifying principal examination appropriate to the business of F&C.

Policy. F&C will validate any requests it receives for investor/customer account name changes/changes of designation by providing notification to the customer at both the old

and the new address. Furthermore, requests by customers/investors to change customer investment objectives will be validated by notification to the customer. The CCO would be responsible for overseeing the implementation of these control procedures and ensuring that supporting documentation of the change request and approval of the change is maintained for not less than three years and in an easily-accessible place for the first two years.

Procedure. *When reviewing the particulars of any client transaction, the Branch Manager will examine, at least, the following:*

- *Ensure that the proposed transaction is consistent with the customer's financial conditions, goals and objectives (i.e. not unsuitable) as set forth in the new account information.*
- *Ensure that the registered representative, as well as F&C, is properly registered in the customer's resident state or that an exemption from registration is available.*
- *Ensure that compensation to the registered representative is not excessive, taking into consideration all relevant factors.*
- *Ensure that all required information is included in the offering documents.*
- *Ensure, based on all available information, that the transaction does not appear to violate any rules of the securities industry (i.e. potential insider trading) or raise any "red flags" which may indicate other sales practice problems.*

The CCO may, at his discretion, investigate, adjust, or refuse any transaction that is questionable based on all disclosed information. Such investigation may include contact with the registered representative and/or the investor. Transactions with insufficient information or documentation will be returned to the registered representative for adjustment.

8.5. Review of Accounts

Requirement. Conduct Rule 3110(c) requires each member to review the businesses and activities in which it engages to detect and prevent violations of and achieve compliance with applicable securities laws and regulations. Included in the requirement is the periodic examination of customer accounts to detect and prevent irregularities or abuses. While

no set schedule is mandated with respect to review of customer accounts, in establishing a review cycle, F&C shall give consideration to the nature and complexity of the securities activities, the volume of business done, and the number of customer accounts. Each member shall retain a written record of the dates upon which each review is conducted.

Policy. It will be the responsibility of the CCO to review F&C's businesses and activities to detect and prevent violations of securities laws and regulations applicable to F&C including periodic examinations of customer/investor accounts to detect and prevent irregularities or abuses.

Procedure. *Based on the business conducted by F&C and the complexity, nature and volume of its securities activities, customer account reviews will be conducted periodically. It is the responsibility of the supervisors and the CCO (or designee) to remain continuously aware of client activity and to ensure no excessive or questionable activity is evident. Generally, account activity reviews are conducted on a quarterly basis by the CCO (or designee) and the supervisor. Reports are run detailing the number of transactions, the total commissions and commissions to equity ratios and or turnover ratios (manually calculated). The account is reviewed in terms of size, historical activity and the suitability profile including investment objectives and risk tolerances. Depending on the results of the review, there may be various actions taken from discussion with the RRs, activity letters, commission restrictions or possibly no action. The common trigger prompting possible action is the commission to equity ratio, with 5% prompting review for a possible activity letter and 8% prompting review for possible commission restrictions. The activity letter generally includes the total number of transactions and the total commissions for the review period. It also states the current suitability profile for the account and prompts the customer to review the profile and contact the RR or firm if a change in suitability profile or investment strategy is desired. Any questionable transactions or strategies will be discussed with the Branch Manager, registered representative and the CCO if deemed necessary.*

8.6. Discretionary Accounts

Requirement. A discretionary account is an account in which written authorization is given by a customer enabling a member to execute trades for such customer without his/her prior approval. NASD Rule 2510(b) requires members to obtain a written authorization from investors prior to exercising discretion in the execution of transactions for such investors. In addition to the other account information required by NASD Rule 3110(c), the member shall obtain the signature of each person authorized to exercise discretion in the account and record the date such discretion was granted. A designated principal must approve in writing each transaction in a discretionary account promptly

after execution pursuant to FINRA Rule 2510(c).

Policy. *F&C does not permit discretionary trading or discretionary accounts for retail customers. Without exception, Investment Executives must obtain specific authorization from a customer before executing a trade on behalf of that customer. Generalized discussions of investment strategy are not sufficient. At a minimum, the customer must specifically approve the identity of the security to be purchased or sold, and the number of shares.*

The customer may give the Investment Executive "time and price" discretion to execute the transaction, but only if the following conditions are met: (i) the customer has specifically approved the identity of the security, the type of transaction (i.e., buy, sell long, sell short), and the number of shares; (ii) the Investment Executive explains to the customer what it means to use time and price discretion, and the customer agrees to give the Investment Executive such authority; (iii) the customer has approved a price range with which he/she is comfortable; and (iv) the Investment Executive executes the transaction within the approved price range by the end of the business day of the conversation in which the customer approved the trade. If the trade is not executed that business day, the Investment Executive is required to have another conversation with the customer to confirm that the customer still wants to go forward with the transaction as previously agreed. This process should be repeated daily until the transaction is executed, or the customer cancels the order. Any exercise of time and price discretion must be reflected on the order ticket/order confirmation.

8.7. Third Party Accounts

Requirement. A third party account is an account that is directed by someone other than the beneficial owner.

Policy. F&C will obtain and preserve proper documentation necessary to authorize a third-party to act on behalf of any customer accounts.

8.8. Customer Complaints

Requirement. Conduct Rule 3110(d) requires each member to keep and preserve either a separate file of all written complaints of customers and action taken by the member, if any, or a separate record of such complaints and a clear reference to the files containing the correspondence connected with such complaint. A "complaint" shall be deemed to mean any written statement of a customer or any person acting on behalf of a customer alleging a grievance involving the activities of those persons under the control of the

member in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer.

Policy. The CCO is responsible for determining the merits of and disposition of customer complaints. Any written complaint received must be immediately referred to the CCO who will conduct an investigation into the allegations, including but not limited to, interviewing both the customer and the registered person regarding the allegations. At his/her discretion, the CCO may require a written response from the registered representative. Any interview will be memorialized and retained in a central complaint file along with the original complaint, copies of all letters and other documentation relating to the complaint, the ultimate determination as to the validity of the complaint and any action taken as a result.

Procedure. Handling Complaints

When a written complaint is received, a copy must be forwarded immediately to Compliance for follow-up. Oral complaints should be reported immediately to the Branch Manager for sales practice issues, or to Operations for operational issues.

Examples of sales practice issues include complaints regarding losses, improper trades, and other complaints involving the quality of investments or wrongdoing by the RR or F&C. Examples of operational issues include late dividend checks, errors on monthly statements, etc.

RRs should not make independent decisions regarding whether to report complaints – all oral complaints must be reported either to the Branch Manager or Operations.

If the complaint involves sales practice issues, the Branch Manager must inform Compliance of the complaint.

Any verbal customer complaints must be referred to the CCO who will make a preliminary determination as to the nature and validity of such complaint. If the CCO is unable to resolve the matter verbally, the customer will be informed of F&C's policy to investigate and act on only written complaints.

8.9. Electronic Customer Complaint Reporting

Requirement. FINRA Rule 4530 requires members to report to FINRA specified events, termed "disclosure events", and the quarterly reporting of summary statistics regarding customer complaints. Filings of disclosure events which occur on and after July 1, 2013, are required to be reported within thirty (30) business days after the member knows of,

or should have known of, the existence of the event. Filings of quarterly statistical data and summary information regarding customer complaints are due by the 15th of the month following the calendar quarter in which the customer complaints are received by the member. All reports will be made via the Customer Complaint System Software. No report is required if the member does not receive a customer complaint.

Policy. Disclosure event filings will be made promptly to the Association. Each reportable incident requires a separate filing which contains the following information: a disclosure event code; information as to whether an event involves an affiliate, representative, or other entity; the registered representative's name and social security number; the registered representative's supervisor; and whether the registered representative is employed by F&C at the date of the filing.

Aggregate summary information regarding all customer complaints received within the most recent quarter shall be filed in one (1) quarterly report by each member. Within the summary report, each customer complaint will be separately identified and reflect a product code, a problem code, branch number, complaint date, activity date, disputed amount, transaction amount, security symbol, security name, customer account number, investigator name, the registered representative's name and social security number, the supervisor, and whether the registered representative is employed by F&C at the date of the filing.

The following 10 items are reportable events under Conduct Rule 4530:

- has been found to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization or business or professional organization;
- Is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;
- is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory body or self-regulatory organization alleging the violation of any provision of the Exchange Act, or of any other federal, state or foreign securities, insurance or commodities statute, or of any rule or regulation thereunder, or of any provision of the by-laws, rules or similar governing instruments of any securities, insurance or commodities domestic or foreign regulatory body or self-regulatory organization;
- is denied registration or is expelled, enjoined, directed to cease and desist,

suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization;

- is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military or foreign court;
- is a director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with, a broker, dealer, investment company, investment advisor, underwriter or insurance company that was suspended, expelled or had its registration denied or revoked by any domestic or foreign regulatory body, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution that was convicted of or pleaded no contest to, any felony or misdemeanor in a domestic or foreign court;
- is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding \$15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding \$25,000;
- is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a "statutory disqualification" as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification;
- an associated person of the member is the subject of any disciplinary action taken by the member involving suspension, termination, the withholding of compensation or of any other remuneration in excess of \$2,500, the imposition of

finances in excess of \$2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual's activities on a temporary or permanent basis.

***Procedure.** It is the responsibility of the CCO to ensure the prompt reporting whenever any of the specified events occur involving F&C or persons associated with F&C. These events must be reported within 30 business days of when F&C knows, or should have known, of the event. The registered representative must promptly notify the CCO of any situation that may be subject to reporting and provide sufficient documentation and detail. Evidence of reports made and copies of all related documentation will be maintained in a central file by the CCO.*

The CCO will also have the responsibility to oversee the reporting of statistical and summary information regarding customer complaints by the 15th day of the month following the calendar quarter in which any customer complaints are received by F&C. Evidence of reports made and copies of all related documentation will be maintained in a central file by the CCO.

Specific Supervisory Responsibilities

Function: Customer Accounts
Principal assigned: CCO
Location: Minneapolis, MN
Registrations: 4, 7, 24, 55, 63, 66, 87
Effective Date: July 16, 2014

RESPONSIBILITIES

- Review and approve all new account documents (subscription agreements) to ensure all applicable account information is obtained.
- Monitor customer activity, new account documents, correspondence, and other documentation as well for signs of potential problems including inappropriate use of discretion.
- Review and initial all customer transactions to ensure they are consistent with the customer's financial conditions, goals and objectives.
- Review and initial all incoming correspondence upon receipt and review and initial copies of outgoing correspondence prior to dissemination.
- Investigate and determine the merits and disposition of customer complaints.
- Ensure proper reporting of required events under Conduct Rule 4530.

9. BRANCH AND NON-BRANCH ACTIVITIES

Requirement. Final responsibility for proper supervision shall rest with the member. The member shall designate a partner, officer or manager in each office of supervisory jurisdiction, including the main office, to carry out the written supervisory procedures. A copy of such procedures shall be kept in each such office.

9.1. Rules Applicable to Supervision of Branch Office Activities

F&C's supervisory responsibilities regarding branch offices are addressed in Section 1 of this manual.

9.2. Designation and Registration of Branch Offices and Off-site Locations

Policy. Compliance will be responsible for designating F&C's branch offices, and determining which offices require the presence of a designated principal. Compliance will also be responsible for filing Form BR for each registered branch office.

Procedure. *F&C's policies and procedures regarding the designation and registration of branch offices are also addressed in Section 1 of this manual.*

9.3. Use of Office Space

Policy. Persons not affiliated with F&C are not permitted to conduct business or maintain offices on the premises of any branch location.

Procedure. *Office-sharing arrangements with unaffiliated persons require the prior approval of Compliance. Persons affiliated with F&C shall only conduct F&C -related business while on F&C's premises. No outside business activities may be conducted from F&C's offices. (As a reminder, all outside business activities must receive prior approval from Compliance in accordance with the requirements of this manual.)*

9.4. Changes in Branch Offices

Procedure. *Compliance is responsible for updating F&C's Form BD and Form BR when there are changes in F&C's branch offices. Compliance will also notify the FINRA District Office when F&C intends to open a new branch office.*

9.5. Supervision of OSJ and Branch Offices

Policy. The CCO is responsible for oversight of F&C's supervisory system at the Home, OSJ, and Branch Offices.

Procedure. *F&C's policies and procedures regarding supervision of OSJ and Branch offices are addressed in Section 1 of this manual.*

9.6. Internal Inspections of OSJ and Branch Offices

Requirement. F&C is required to conduct a review, at least annually, of the businesses in which it engages. The review must be reasonably designed to assist F&C in detecting and preventing violations of and achieving compliance with applicable securities laws, regulations and rules. F&C must codify minimum inspection cycles for its offices and to require that office inspections include, without limitation, the testing and verification of the member's policies and procedures, including supervisory policies and procedures in certain specified areas.

F&C must also review the activities of each office, including the periodic examination of customer accounts to detect and prevent irregularities or abuses. The examinations must include the annual inspection of each OSJ. Each branch and non-branch will also be inspected according to a cycle established by F&C. In establishing the cycle, F&C will consider the following:

- The nature and complexity of the activities conducted at the location;
- The volume of business done at the location;
- The number of reps assigned to the location; and
- Any special factors that may warrant more frequent examinations, such as high volumes of trade cancellations/corrections, high volume of trade errors, customer complaints or the experience levels or reps or supervisors at the location.

Policy. Compliance will inspect and audit each OSJ office at least once a year and at a minimum, each branch office at least every 3 years. An accelerated audit schedule may occur for branch offices that meet the qualifications below. Compliance will also use the OSJ office inspection as an opportunity to conduct the Annual Compliance Review with the RRs in that branch, and discuss the Annual Compliance Agreement. Compliance will maintain written records of the results of each such inspection.

Procedure. *Compliance will establish a schedule and cycle of branch inspections taking into consideration—*

- *The nature and complexity of the activities conducted at the location;*
- *The volume of business done at the location;*

- *The number of reps assigned to the location; and*
- *Any special factors that may warrant more frequent examinations, such as high volumes of trade cancellations/corrections, high volume of trade errors, customer complaints or the experience levels or reps or supervisors at the location.*

F&C must conduct a review, at least annually, of the OSJ Offices in which it engages, the review conducted must be reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations and with FINRA Rules.

With respect to non-branch locations where a registered representative engages in securities activities, F&C will audit these locations as seen fit by the CCO, but not exceed every five years.

9.7. Branch Manager's Checklist

Procedure. Branch managers will complete a monthly checklist summarizing the reviews conducted by the branch manager during the month. The signed checklist must be forwarded to Compliance by the 15th of the month following the month reported. A copy of the checklist should be retained in the Branch Manager's file at the branch

9.8. Branch Manager's Review of Registered Representatives.

Procedure. At least once annually, the Branch Manager should review the sales and compliance practices of each RR in the branch. RRs subject to special supervision must have reviews performed that align with the special supervision memorandum. Both the Branch Manager and RR should sign the form once it is complete. A copy should be given to the RR and kept in the Branch file. The original should be forwarded to Compliance for review.

9.9. Supervision of Non-Branch Business Locations

Procedure. Non-Branch supervision will be conducted by OSJ Branch Managers that the non-branch has been assigned. Branch Managers will review the daily transaction blotters and perform RR reviews as they would if the RR was located in the Branch itself.

9.10. Review of Non-Branch Locations

Procedure. Non-Branch locations will be audited at least once every three years. The CCO has the right and discretion to audit these locations on a shorter timeline, and based on criteria of his choosing.

9.11. Broker-Dealer Activity on Premises of Financial Institutions

Procedure. F&C does have a branch office that shares the same building as another financial institution (Key Community Bank). However, F&C's branch is separated from Key Community Bank. Meaning that F&C's branch is has its own entrance, signage, and none of the RRs have direct access to the bank. F&C maintains that this branch is not actual on the "Premises" of a financial institution.

Specific Supervisory Responsibilities

Function: Branch Office Activities

Principal assigned: Dirk G. Van Krevelen

Title: CCO

Location: Minneapolis, MN

Registrations: 4, 7, 24, 55, 63, 66, 87

Effective Date: July 16, 2014

RESPONSIBILITIES

- Prepare and maintain OSJ/Branch Office list.
- Prepare and maintain office inspection schedule.
- Conduct, or arrange for the completion, of office inspections according to the established schedule.
- Prepare and maintain the written documentation of inspections, including all findings.
- Resolve and document resolution of all issues discovered during inspections.

10.REGULATION S-P

10.1. Introduction

It is the policy of F&C to follow the provisions of Regulation S-P in accordance with the following Policy Statement which is provided to all customers/investors.

10.2. Privacy Policy Statement

The following is the policy statement to be provided to investors in accordance with the requirements of Regulation S-P:

F&C and Company is a FINRA broker-dealer. We will make investors/customers aware of F&C's policies regarding F&C's use of the information provided to us when establishing or while maintaining a relationship with us.

Privacy Policy

F&C and Company does not sell personal information about its investors to anyone. F&C will not share personal information about F&C's investors with other companies unless F&C needs to share the information in order to provide a product or service a customer has requested. Unless F&C tells investors otherwise, these other companies do not have the right to use investors' personal information obtained from F&C in any manner beyond what is required to provide a customers' requested product or service. F&C limits the collection of personal information to what is necessary to administer F&C's business and to deliver F&C's products and services to F&C's investors. It is sometimes necessary in the conduct of F&C's business that F&C shares information with F&C's affiliates. F&C does reserve the right to disclose or report personal information in limited circumstances where F&C believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to perform necessary credit checks or collect or report debts owed to us, to protect F&C's rights or property, or upon reasonable request by the sponsor or provider of a product in which you have chosen to invest. Listed below is the information F&C does collect and how F&C uses that information:

Forms you may complete to interact with F&C such as:

- *new account forms*
- *agreements and contracts*
- *tax returns and pay stubs*
- *questionnaires and miscellaneous forms.*

These forms may request personal information such as your e-mail address, telephone

number, mailing address, financial information, employment information, investment objectives and financial needs, and pension information for example.

How F&C uses this information

Your personal information is generally maintained by your name in F&C' files. Your personal information is utilized strictly for the purpose of conducting business with you. At no time does F&C sell your information or share it unless it is necessary to conduct business with you. On occasion, F&C's investors' service providers such as accountants, attorneys, etc. may request non-public information about them. F&C will upon request and upon notification to F&C's clients supply such provider with such information.

Protection of Client Information

Our firm's policies require that employees with access to confidential investor information may not use or disclose the information except for business use. Access to client information is available to employees on a "need-to-know" basis only and is restricted to certain employees, representatives and agents with a business reason for access to such information. F&C safeguards information according to established security standards and procedures and train F&C's employees and representatives to understand and comply with these protections.

One significant concern that has driven recent regulations regarding the confidentiality and privacy of customer information is identity theft. While some of the recent, high-profile cases of identity theft involve unauthorized access to electronic information, some recent reports indicate that the majority of identity theft cases are still committed with information obtained offline. F&C's procedures do not focus solely on the use of electronic information, but also address the proper use and destruction of paper documents (including, of course, consumer report information under the recent amendments to Regulation S-P) that could raise privacy concerns.

As F&C updates its technology and use new and different methods of communication, whether through the use of wireless technology or allowing employees to work remotely, we will consider whether these methods necessitate updates or changes in our policies and procedures. We will consider the following, at a minimum:

- whether our existing policies and procedures adequately address the technology currently in use;*
- whether we have taken appropriate technological precautions to protect customer information;*
- whether we are providing adequate training to its employees regarding the use of available technology and the steps employees should take to ensure that customer records and information are kept confidential; and*
- whether we are conducting, or should conduct, periodic audits to detect potential vulnerabilities in its systems and to ensure that its systems are, in practice, protecting customer records and information from unauthorized access.*

The use of new technologies can benefit F&C, our employees, and customers; however, these new technologies can also present risks that we must consider and address appropriately. In some instances, the appropriate way to deal with these risks is not only through technological solutions, but may also involve changes to our training regimen and/or to our policies and procedures. We will consider whether the adoption of new technologies would necessitate changes in its compliance policies and procedures or systems before implementation so that issues can be identified and addressed in a timely way and problems can be avoided.

F&C is aware of its obligation to protect confidential customer records and information relative to the use of WiFi technology or other remote access to customer account information. Currently, F&C's associated persons do not have access to customer accounts through WiFi or other remote technology; however, in the event such access is granted in the future, F&C will take steps to determine whether the adoption of new technologies would necessitate changes in its compliance policies and procedures or systems before implementation so that issues can be identified and addressed in a timely way and problems can be avoided. Consumer information will be shredded rather than discarded when no longer necessary to be maintained by F&C

E-mail at F&C and Company

F&C may rely on E-mail as a means of communication between F&C and its clients.

Changes to Firm Privacy Policies

From time to time F&C may update its privacy policies. All new investors will receive F&C's most current private policy upon entering into an agreement or opening an account with F&C. All investors will be provided with F&C's most current privacy policies at least annually.

Contacting Us

You may contact F&C by telephone at:

612-492-8884

Or you may also communicate with F&C in writing at:

*F&C and Company
2100 LaSalle Plaza
800 LaSalle Ave
Minneapolis, MN 85251-7663*

Or you may send emails to F&C's CCO at:

dgVanKrevelen@feltl.com

Privacy Procedures

F&C and Company, in accordance with the Privacy Rule, will prepare, review, update and distribute no less than annually a written notice describing F&C's privacy policies. Initially, F&C will provide a copy of the policy to each consumer and new investor along with an opportunity to opt out of receiving email correspondence from F&C. Thereafter, F&C and Company will provide an annual privacy notice to each existing investor. However, after the first year, F&C and Company will revise its notices only to reflect changes in F&C's privacy policies and will revise its policies on safeguarding investor information as appropriate to ensure the protection of the information. In addition, F&C and Company will include its AML Compliance Disclosure in the annual mailing of the Privacy Notice.

F&C and Company will maintain a written record of each consumer to which it provides a copy of its privacy statement, the date of the notice, and any opt-out elections. The following is a sample of the notification provided to each customer/investor upon establishing a relationship with F&C:

PRIVACY NOTICE

F&C maintains the highest standards of confidentiality and respects the privacy of our client relationships. In that regard, we are providing this Privacy Notice to all of our individual clients who obtain financial products and services from us for personal, family or household purposes, in accordance with Title V of the Gramm-Leach-Bliley Act of 1999 and its implementing regulations.

The Information We Collect About You. The non-public personal information we collect about you (your "Information") comes primarily from the account applications or other forms you submit to us. We may also collect information about your transactions and experiences with us, our affiliates, or others relating to the products and services we provide. Also, depending on the products or services you require, we may obtain additional information from consumer reporting agencies.

Our Disclosure Policies. We do not disclose your Information to anyone, except as permitted by law. This may include sharing your Information with non-affiliated companies that perform support services for your account or process your transactions on behalf of our affiliates or us. It may also include sharing your Information with our affiliates to bring you a full range of products. Additionally, it may include disclosing your Information pursuant to your express consent, to fulfill your instructions, or to comply with applicable laws and regulations.

Our Information Security Policies. We limit access to your Information to those of our employees and service providers who are involved in offering or administering the products or services that we offer. We maintain physical, electronic, and procedural safeguards that are designed to comply with federal standards to guard your Information.

If our relationship ends, we will continue to treat the Information as described in this Privacy Notice.

Finally, F&C and Company will review its contracts with third parties for administrative services and joint marketing agreements to ensure that the contracts reflect its privacy policies.

Specific Supervisory Responsibilities

Function: Privacy Policy

Principal assigned: CCO

Location: Minneapolis, MN

Registrations: 4, 7, 24, 55, 63, 66, 87

Effective Date: July 16, 2014

RESPONSIBILITIES

- Review the broker-dealer's privacy policy for completeness and accuracy no less than annually;
- Review F&C's procedures to ensure that initial written notices with opt-out provisions are being properly disseminated to all consumers and new investors;
- Review F&C's procedures to ensure that revised policy statements are being distributed to all investors no less than annually if applicable; and,
- Review F&C's documentation evidencing that notices are being sent as required.

11. Investor Education and Protection

Requirement. FINRA Rule 2267 requires member firms, except a firm that does not have customers or is an introducing firm that is party to a carrying agreement where the carrying firm member complies with the requirements of the rule, to provide customers with FINRA's Web site address and information regarding FINRA's BrokerCheck® program at least once every calendar year. Member firms that conduct a limited business in which contact with customers is limited to introducing customer accounts to be held directly at an entity other than a FINRA member, and thereafter do not carry customer accounts or hold customer funds and securities (e.g., do not provide account statements or trade confirmations) may furnish a customer with the information required by the rule at or prior to the time of the customer's initial purchase, in lieu of once every calendar year.

The information required under the rule may be provided electronically to customers.

FINRA Conduct Rule 2267 Investor Education and Protection requires firms with certain exemptions to notify their customer about the availability of information through the FINRA Regulation Public Disclosure Program; specifically, the Public Disclosure Program's Hotline phone number, the FINRA Regulation Website address and an availability statement.

a) Each member shall, with a frequency of not less than once every calendar year, provide in writing to each customer the following items of information:

(1) FINRA Regulation Public Disclosure Program Hotline Number;

(2) FINRA Regulation Website Address; and

(3) A statement as to the availability to the customer of a customer brochure that includes information describing the Public Disclosure Program.

(b) Notwithstanding the requirement in paragraph (a) above, any member that does not carry customer accounts and does not hold customer funds or securities is exempt from the provisions of this Rule.

Policy. F&C will provide a written copy of the information required by the Rule and outlined above to customers when the relationship is established and no less than once per calendar year thereafter and will maintain a log of the names of each customer and the date on which the notice was sent to each.

Procedure. *F&C's CCO will be responsible for ensuring that this information is provided to each new customer, and no less than annually to all customers.*

Specific Supervisory Responsibilities

Function: Investor Education and Protection

Principal assigned: Dirk G. Van Krevelen

Title: CCO

Location: Minneapolis, MN

Registrations: 4, 7, 24, 55, 63, 66, 87

Effective Date: July 16, 2014

RESPONSIBILITIES

- Ensure that F&C provides in writing no less than annually to each customer the following items of information:
 - FINRA Regulation Public Disclosure Program Hotline Number;
 - FINRA Regulation Website Address; and
 - A statement as to the availability to the customer of an investment brochure that includes information describing the Public Disclosure Program.
- Review F&C's procedures to ensure that revised Investor Education documents are being distributed to all customers no less than annually if applicable; and,
- Review F&C's documentation evidencing that notices are being sent as required.

12. Business Continuity Plan

Requirement. FINRA Rule 4370 require firms to create and maintain business continuity plans (BCP) to use in the event of a significant business disruption. In addition, the proposed rules would require members to provide FINRA with specific information to be used by FINRA in the event of future significant business disruptions.

Policy. F&C has developed a Business Continuity Plan, a copy of which can be found online at www.fetl.com.

PART II – PRODUCTS AND SALES

13.Options

13.1. Introduction

FINRA Rule 2860 defines an "option" as any "put, call, straddle, or other option or privilege which is a security" as defined in Section 2(1) of the Securities Act of 1933, but shall not include any tender offer, registered warrant, right, convertible security or any other option in respect to which the writer is the issuer of the security which may be purchased or sold upon the exercise of the option.

13.2. Definitions

Option - An "option" is a legal contract that gives the holder the right to buy or sell a specified amount of the underlying security at an established price (called the exercise or strike price) upon exercise of the option. The seller of the option is obligated to buy from or sell to the holder, the specified amount of the underlying security at the established price.

Call - The term "call" means an option contract under which the holder of the option has the right to purchase the number of units of the underlying security or to receive a dollar equivalent of the underlying index covered by the option contract.

Put - The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell the number of units of the underlying security or deliver a dollar equivalent of the underlying index covered by the option contract.

Covered - The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit", or the writer holds a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract means that the writer holds a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

Uncovered - The term "uncovered" in respect of a short position in an option contract

means the short position is not covered. The term “writing uncovered short option positions” shall include combinations and any other transactions which involve uncovered writing.

Exercise Price - The term “exercise price” in respect of an option contract means the stated price per unit at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option

Premium - The term “premium” means the aggregate price of the option contracts agreed upon between the buyer and writer/seller or their agents.

Underlying Security - The term “underlying security” in respect of an option contract means the security which The Options Clearing Corporation or another person shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.

Long Position - The term “long position” means the number of outstanding option contracts of a given series of options held by a person (purchaser).

Short Position - The term “short position” means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

Opening Purchase Transaction - The term “opening purchase transaction” means an option transaction in which the purchaser’s intention is to create or increase a long position in the series of options involved in such transaction.

Closing Purchase Transaction - The term “closing purchase transaction” means an option transaction in which the purchaser’s intention is to reduce or eliminate a short position in the series of options involved in such transaction.

Closing Sale Transaction - The term “closing sale transaction” means an option transaction in which the seller’s intention is to reduce or eliminate a long position in the series of options involved in such transaction.

Conventional Option - The term “conventional option” shall mean any option contract not issued, or subject to issuance, by The Options Clearing Corporation.

13.3. Organization of a Supervisory System for Options

Requirement. Every firm that engages in options transactions with its clients must have at least a Registered Options and Security Futures Principal (“ROSFP”). Every firm must

also develop and implement a written program providing for the diligent supervision of all of its customer accounts and all orders in customers' accounts. In addition, every firm must develop and implement specific written procedures concerning the supervision of customer accounts trading in options, including review of accounts.

Procedure. The designated ROSFP for F&C is responsible for the overall development and implementation of F&C's supervisory system as it pertains to F&C's options business.

13.3.1. Qualification and Registration of Options Personnel

Registered Options Principals

Requirement. Membership and Registration Rule 1022(f) requires firms engaged in, or intending to engage in transactions in put or call options with the public shall have at least one ROSFP. Each person required to be a ROSFP must pass the appropriate Qualification Examination, for the purpose of demonstrating an adequate knowledge of options trading generally, the Rules of the FINRA applicable to trading of option contracts and the rules of the Options Clearing Corporation, and be registered as such before engaging in the duties or accepting the responsibilities of a ROSFP.

If F&C has only one designated ROSFP, in case of an emergency has an alternative. If the designated ROSFP become unavailable due to sickness, vacation, or termination; F&C must qualify a new ROSFP within two weeks or it must cease conducting an options business. F&C is still allowed to effect closing transactions in order to reduce or eliminate existing open options positions in their own account as well as the accounts of their customers.

Registered Options and Security Futures Principal

Requirement. FINRA Conduct Rule 2360 requires F&C to develop and implement a written program providing for the diligent supervision of all of its customer accounts, and all orders in such accounts by an person who is properly qualified as a ROSFP.

Procedure. The CCO is the designated ROSFP and is responsible for all aspects of supervision and compliance with applicable rules and regulations with respect to F&C's options business.

13.4. Approving Customers for Option Transactions/Opening Accounts

Requirement. FINRA Rule 2360 requires F&C to attempt to obtain essential facts about each customer prior to approving the account for options trading.

Policy. F&C will record essential facts about each customer prior to approving the account for options trading.

Procedure. *F&C will attempt to obtain the following information which must be recorded on a separate new account form designed specifically for the opening of option accounts which includes an option agreement with a supplemental section for specific customer personal and financial data.*

Required information includes:

- *Investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);*
- *Employment status (name of employer, self-employed, or retired);*
- *Estimated annual income from all sources;*
- *Estimated net worth (exclusive of family residence);*
- *Estimated liquid net worth (cash, securities, other);*
- *Marital status and number of dependents;*
- *Age; and*
- *Investment experience and knowledge (e.g., number of years, size, frequency and type of transactions for options, stocks and bonds, commodities, others).*

Refusal by a customer to provide any of the information must be included in the customer's records at the time the account is opened. Information provided shall be considered together with the other information available in determining whether and to what extent to approve the account for options trading.

13.4.1. Account Approval/Diligence in Opening Accounts

Requirement. FINRA Rule 2360 require that firm ROSFP approve every account in writing before the account is permitted to effect transactions, in equity or index options.

Policy. The ROSFP must determine and indicate in writing the level of option trading for which the account will be approved.

Procedure. *The ROSFP will determine and indicate in writing the level of option trading for which the account will be approved based on the background and financial information received from the customer.*

The following chart lists the minimum criteria for the various levels of option trading (though the ROSFP has some flexibility to make exceptions):

Covered call writing; Buying long calls and puts; Buying puts against a long stock position; Spreads	<ul style="list-style-type: none"> x \$25,000 annual income x \$25,000 liquid net worth x \$25,000 total net worth
Uncovered put writing	<p>Same as above, plus:</p> <ul style="list-style-type: none"> x 6 months prior options experience x Investment objectives include income x Min. Acct Equity \$25,000
Short straddles/combos (Uncovered call writing will be considered on a case-by-case basis, if the criteria on the right is satisfied.)	<ul style="list-style-type: none"> x \$75,000 annual income x \$150,000 liquid net worth x \$250,000 total net worth x 2 years prior options experience x Primary objective is speculation

The following chart further identifies the option strategies that are permissible in cash, margin, and IRA accounts, assuming the ROSFP has approved the account for the specific level of trading:

TYPES OF OPTION STRATEGIES	CASH	MARGIN	IRA
Buying Calls	Yes	No	No
Covered Call Writing	Yes	Yes	Yes
Uncovered Call Writing	No	Yes	No
Buying Puts	Yes	Yes	Yes
Put Writing	No	Yes	Yes
Hedging	Yes	Yes	Yes
Call Spreads	No	Yes	No
Put Spreads	No	Yes	No
Long Straddles	Yes	No	No

Short Straddles	No	Yes	No
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An account will be allowed to effect option transactions ONLY after approved by the ROSFP.

13.4.2. Verification of Customer Background and Financial Information

Requirement. FINRA Rule 2360 requires that the background and financial information upon which the account of every new options customer that is a natural person has been approved for options trading must be sent to the customer for verification within fifteen (15) days after the customer's account has been approved for options trading. A copy of the background and financial information on file with F&C must also be sent to the customer for verification within fifteen (15) days after F&C becomes aware of any material change in the customer's financial situation. F&C need not send the background and financial information to the customer for verification if the customer signed the a new account form that contains the required information.

13.4.3. Account Agreement

Requirement. Rule 2360 requires that within fifteen (15) days after a customer's account has been approved for options trading, F&C must obtain a written agreement from the customer that the customer is aware of and agrees to be bound by FINRA Rules as they apply to the trading of option contracts. Such agreement shall also include verification that the customer has received a copy of the current disclosure document(s) of The Options Clearing Corporation and is aware of and agrees to be bound by The Option Clearing Corporation's rules . In addition, the customer should indicate on such written agreement that he is aware of and agrees not to violate the established position and exercise limits set forth in the FINRA's rules.

13.4.4. Delivery of Current Disclosure Document(s)

Requirement. FINRA Rule 2360 requires that F&C, or its clearing firm, provide each customer with the most current options risk disclosure documents.

Policy. F&C will provide each customer with the most current options risk disclosure at, or prior to, the time the account is approved for options trading.

Procedure. *F&C (or its clearing firm) will provide each customer with the most current options risk disclosure at, or prior to, the time the account is approved for options trading which is prepared by The Options Clearing Corporation and which provides an explanation of the risks and process involved in options trading. The client must*

acknowledge, in writing, the receipt of the disclosure document within 15 days of account opening. Each new or revised disclosure document must be sent option-approved customer account. The amended disclosure document may also be sent at or prior to the confirmation of the client's next option trade.

The ROSFP may give initial option account approval only. This approval must be obtained before the first option trade is entered for the account. The ROSFP is responsible for review and final approval all option accounts within 10 days of account opening. Prior to approving an account for options trading, the ROSFP is responsible for assuring all required information is present and an option agreement has been signed by the customer. Such review shall also include an analysis of the information presented to determine that the proposed strategy and/or trading risk is appropriate and not unsuitable. In instances where the option agreement has not been signed by the customer before approval, the ROSFP will maintain a log noting the date the options account was approved and calculating 15 days hence as the date of a follow-up review to assure the customer has signed and returned the agreement. If F&C has not received a signed agreement, all option activity in the account will be suspended and the ROSFP will contact the customer directly regarding the deficiency.

13.5. Uncovered Short Option Contracts

Requirement. FINRA Rule 2360 requires F&C to develop, implement and maintain specific written procedures if they transact business with the public in writing uncovered short option contracts.

Policy. Uncovered short option writing will not be encouraged or recommended unless the client is able to understand and sustain the possible losses that can be related to such activity.

Procedure. *Uncovered Option Writers must also receive the appropriate risk disclosure documents and abide by the equity requirements established by F&C's clearing firm. F&C will only allow uncovered short options transactions in accordance with the limits set by its clearing firm. The same suitability and operational standards and review requirements as set forth in other parts of this section will also apply to uncovered option writing accounts.*

The equity requirements set by the clearing firm are contained in the operating manual supplied to F&C by the clearing firm. The ROSFP will be responsible for monitoring all short option activity to ensure all trades are suitable in light of the client's financial situation, risk tolerance, option trading experience and investment objective. All short option transactions must be pre-approved by the ROSFP prior to entry. The ROSFP can reject any trade he feels is unsuitable.

The ROSFP will review all option accounts with uncovered positions on an ongoing basis, documenting such review by initialing and dating the appropriate documents as evidence of the review. Any issues uncovered during these reviews will be addressed with the client's rep and the rep's direct supervisor, with documentation of resolution of the matter retained in the appropriate file. The ROSFP will ensure all uncovered option writers receive the appropriate risk disclosure procedures and that any margin calls are promptly met. The SROP/CROP will also monitor the activity in the uncovered option writer's accounts for profitability and contact the client should excessive losses be noted in the account.

13.6. Discretionary Accounts

Requirement. FINRA Rule 2510 and 2360 requires F&C to establish specific procedures for the handling of discretionary accounts.

Policy. F&C does not permit discretionary trading of options in retail customer accounts, please see section 8.5 for more information on Felt's policy regarding discretionary authority.

13.7. Processing Customer Options Transactions

13.7.1. Suitability

Requirement. FINRA Rule 2360 states that F&C and its associated persons will not recommend to any customer any transaction for the purchase or sale (writing) of an option contract unless F&C or associated person has reasonable grounds to believe, upon the basis of information furnished by such customer concerning the customer's investment objectives, financial situation and needs, and any other information known by F&C or associated person, that the recommended transaction is not unsuitable for such customer.

FINRA Rule 2360 requires that no member or person associated with a member shall recommend to a customer an opening transaction in any option contract unless the person making the recommendation has a reasonable basis for believing, at the time of making the recommendation, that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

Policy. The ROSFP is responsible for ensuring that F&C's registered representatives have

made appropriate customer suitability determinations prior to recommending option transactions.

Procedure. *The ROSFP, in conducting a review of transactions, may compare the transaction to:*

- 1) information disclosed on the customer's option account form and agreement;*
- 2) related information from the customer's cash and/or margin account;*
- 3) client and/or representative generated correspondence; and/or*
- 4) past activity in any of the customer's accounts.*

If further review is indicated, the ROSFP will contact the registered person and request a written statement which discusses the basis of the registered person's suitability determination. The ROSFP may, at his discretion, contact the customer to verify suitability. The ROSFP will determine, on a case-by-case basis, whether further action is warranted, including reversal of the transaction(s) and/or disciplinary action against the registered person. Such disciplinary action may include a fine or termination.

13.7.2. Monitoring Position Limits/Exercise Limits

Requirement. FINRA Rule 2360 requires F&C to ensure that no customer is allowed to effect an opening option trade or request an exercise that may be in violation of the position and exercise limits as established by the FINRA.

Policy. F&C's ROSFP, using information provided by F&C's clearing firm such as position reports and exercise notices, will monitor customer option accounts for possible position and exercise limit violations.

Procedure. *If, while monitoring customer option accounts for possible position and exercise limit violations, any account is found to be approaching a position limit or entering an exercise request in excess the limit, the registered representative and the Branch Manager will be notified by the ROSFP and instructed to lower their order or exercise request. F&C will maintain written records of any issues related to position or exercise limits.*

13.7.3. Liquidation of Positions and Restrictions on Access

Requirement. Under FINRA Rule 2360, FINRA may at times direct F&C to either liquidate a customer's option position or restrict a customer from effecting future opening option transactions. These limitations may be established when the FINRA determines that a customer or a group of customers acting in concert has exceed the position limits set by the FINRA. Prior to the imposition of such restrictions or

liquidations, the FINRA will notify the client.

Policy. F&C will promptly honor any liquidation or restriction requests made by FINRA.

Procedure. *Upon receipt of a directive from FINRA to either liquidate a customer's option position or restrict a customer from effecting future opening option transactions, the ROSFP will immediately take steps to either liquidate the position or restrict the customer's account from future option opening activities. F&C will maintain a record of all such requests and evidence of their actions in response to the requests.*

13.8. Confirmations

Requirement. Under FINRA Rule 2360 F&C must promptly furnish to customers a written confirmation of each option transaction in the customer's account. Each confirmations must show:

1. The type of option;
2. The underlying security or index;
3. The expiration month;
4. The exercise price;
5. The number of option contracts;
6. The premium;
7. The commission,
8. The trade and settlement dates,
9. Whether the transaction was a purchase or sale (writing) transaction,
10. Whether the transaction was an opening or a closing transaction,
11. Whether the transaction was effected on a principal or agency basis,
12. For other than options issued by The Options Clearing Corporation (conventional options), the date of expiration, and
13. The appropriate symbols to distinguish between exchange-listed and NASDAQ option transactions and others.

Policy. F&C relies on its clearing firm to prepare and disseminate confirmations to customers. F&C must conduct regular due diligence of its clearing firm to ensure that confirmations contain required information.

Procedure. *The ROSFP will randomly review option confirmations to assure all required information has been included.*

13.9. Supervision of Options Activity

Requirement. FINRA Rule 2360 requires that every member shall develop and implement a written program providing for the diligent supervision of all of its customer accounts, and all orders in such accounts, to the extent such accounts and orders relate to options contracts, by an officer (in of the member who is a Registered Options Principal and who has been specifically identified to the Association as the member's Senior Registered Options_Principal. A Senior Registered Options Principal, in meeting his responsibilities for supervision of customer accounts and orders, may delegate to qualified employees (including other Registered Options Principals) responsibility and authority for supervision and control of each branch office handling transactions in option contracts, provided that the Senior Registered Options Principal shall have overall authority and responsibility for establishing appropriate procedures of supervision and control over such employees.

Policy. The ROSFP will be ultimately responsible for supervising all option activity and accounts.

Procedure. *All option order tickets will be reviewed daily as outlined above to ensure compliance with applicable rules. All customer accounts will be reviewed for compliance with all applicable rules no less than quarterly, although a more frequent review may be indicated for active accounts or if circumstances dictate additional supervision is needed. Any suspicious activity will be investigated completely and a memorandum will be prepared and maintained by the ROSFP, discussing the investigation and the resultant action taken by F&C.*

The ROSFP, in reviewing customer account statements and account activity, will focus on the following:

- *A highly active option account;*
- *trades for which there appears to be no justified reason or in contradiction of the client's stated strategy ;*
- *all high risk trading;*
- *customer that appear to be incapable of bearing the loss of all or most of the amount invested;*
- *account profitability;*
- *inexperience customer with little or no options trading history;*
- *unreasonable trade volume and size in light of customer's financial information;*
- *incompatibility of option transactions with the customer's investment objectives;*
- *option transactions outside the approved strategy for the account;*
- *undue concentration in one or more option classes;*
- *high ratios of option commissions to total commissions ;*
- *past option trading issue with account's representative;*
- *excessive commissions in light of account profits (or losses) ;*

- *high proportion customer's trades are in options;*
- *large or excessive losses in an option account; and*
- *past customer problems such as non-payment, late payments, broken trades, etc.*

13.10. International Securities Exchange

13.10.1. Exchange Approval

Requirement. An Electronic Access Member may be approved by the Exchange to transact business with the public only if such Member is also a member of another registered national securities exchange or association with which the Exchange has entered into an agreement under Rule 17d-2 under the Exchange Act pursuant to which such other exchange or association shall be the designated examining authority for the Member.

Policy. Approval to transact business with the public shall be based on a F&C's meeting the general requirements set forth in this Chapter and the net capital requirements set forth in Chapter 2 (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

13.10.2. Supervision of Accounts

(a) Duty to Supervise-- Non-Member Accounts. Every Member shall develop and implement a written program for the review of the its non-Member customer accounts and all orders in such accounts, insofar as such accounts and orders relate to options contracts.

(b) Duty to Supervise-- Uncovered Short Options. Every Member shall develop and implement specific written procedures concerning the manner of supervision of customer accounts maintaining uncovered short (written) options positions (which for the purposes of this Rule shall include combinations and any transactions that involve naked writing) and specifically providing for frequent supervisory review of such accounts.

(c) ROSFP. Each Member shall designate ROSFP who is specifically identified to the Exchange and who is an officer (in the case of a corporation) or general partner (in the case of a partnership) or manager (in the case of a limited liability company) of the Member to supervise compliance with paragraphs (a) and (b) of this Rule. In meeting his responsibility for supervision of nonmember customers' accounts and orders, the ROSFP may delegate to qualified employees responsibility and authority for supervision and control of each branch office handling options transactions, provided that the ROSFP shall have overall authority and responsibility for establishing appropriate procedures of

supervision and control over such employees.

(d) ROSFP. Every Member shall designate and specifically identify to the Exchange a ROSFP, who shall have no sales functions and shall be responsible to review, and to propose appropriate action to secure, the Member's compliance with securities laws and regulations and Exchange Rules with respect to its options business.

(1) The ROSFP shall regularly furnish reports directly to the compliance officer and to other senior management of the Member.

(e) Maintenance of Customer Records. Background and financial information of customers who have been approved for options transactions shall be maintained at the principal supervisory office having jurisdiction over the office servicing a customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each customer's options account on a timely basis to determine:

(1) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;

(2) the size and frequency of options transactions;

(3) commission activity in the account;

(4) profit or loss in the account;

(5) undue concentration in any options class or classes; and

(6) compliance with the provisions of Regulation T of the Federal Reserve Board.

13.11. Operational and Recordkeeping Considerations for Options

13.11.1. Delivery of Disclosure Documents

Requirement. FINRA Rule 2360 states that F&C, as an introducing broker/dealer processing its options business on a fully disclosed basis through a clearing firm, can rely on its clearing firm to deliver the necessary disclosure documents to customers.

Policy. F&C's arrangement with its clearing firm requires F&C to deliver the disclosure document at the opening of a customer option account. The clearing firm is responsible for advising F&C of new revisions of the disclosure documents.

Procedure. *The ROSFP will ensure that updates to the disclosure document are sent out to all options account in a timely manner. Should any issues arise, the ROSFP will bring it to the attention of the CCO and document the matter along with its resolution.*

13.11.2. Exercise of Options Contracts

Requirement. FINRA Rule 2360 addresses F&C's responsibilities regarding the exercise of option contracts. The buyer of an option may exercise their right to buy or sell the underlying security at a particular price, by notifying F&C of their intent. The exercise notice will be tendered to The Options Clearing Corporation by F&C's clearing firm, after receipt of the notice from F&C on behalf of the customer. Exercise notices must be received within the time-frames established by the FINRA or The Options Clearing Corporation. F&C must prepare and maintain a memorandum of every exercise instruction it receives from a customer. This memorandum must show the time the instruction was received by F&C. F&C will also maintain a record indicating when the customer's instructions were forwarded to F&C's clearing firm.

Policy. Pursuant to FINRA Rule 2360 F&C will establish fixed procedures for the allocation to customers of exercise notices, to ensure that exercise assignments are allocated in a fair and impartial manner.

Procedure. *The allocation method can be on a "first in-first out" or automated random selection basis that has been approved by the FINRA or manual random selection basis that has been specified by the FINRA. F&C, via its open account opening documents, will inform customers of the method used to allocate exercise notices to customers.*

F&C relies on its clearing firm to allocate exercise assignment notices which uses the random selection basis.

13.11.3. Position Limits

Requirement. FINRA Rule 2360 requires F&C to ensure that no opening transactions be allowed in a customer's account if F&C believes that as a result of the transaction the customer, either alone or with others, would upon completion of the transaction, hold an aggregate position in excess of the contract limits set by regulation for a particular underlying security of an option covering the same underlying security, on the same side of the market.

Policy. F&C will take steps to ensure that no opening transactions be allowed in a customer's account if F&C believes that as a result of the transaction the customer, either alone or with others, would upon completion of the transaction, hold an aggregate position in excess of the contract limits set by regulation for a particular underlying security of an option covering the same underlying security, on the same side of the market.

Procedure. *The ROSFP will monitor options transactions to ensure that no opening*

transaction would result in an aggregate position in excess of the contract limits for a particular underlying security on the same side of the market. A customer may exceed position limits alone, or together with a group of other accounts. Customers are not allowed to attempt to circumvent position limits. Related accounts will be closely monitored for position limit violations.

13.11.4. Exercise Limits

Requirement. FINRA Rule 2360 requires prohibits F&C or its associated persons from allowing the exercise of any option that if exercised would cause the account to exceed, within any five (5) consecutive business days, a number of option contracts of a particular class of options in excess of the position limits.

Policy. The ROSFP will have the responsibility to assure F&C does not violate option exercise or position limits.

Procedure. To make this determination, the ROSFP will review closing option positions for all accounts on a daily basis or upon activity in an account. Any suspicious activity or position(s) will be analyzed. The ROSFP will completely investigate any potential violations and discuss each situation with senior management to determine further action. Discipline actions will be initiated on a case-by-case basis.

13.12. Reporting of Options Positions

Requirement. FINRA Rules 2360 requires F&C to file a report of any account held by F&C that exceeds a position of 200 or more options contracts, whether long or short, of the a put or call class, on the same side of the market, covering the same underlying security. Reports are also required if F&C has reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed position or exercise limits. The report requires F&C to provide the information required by the FINRA, such as customer name, address, social security number, and tax identification number. F&C must also report the total number of option contract held by the customer. The report must be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such reports occurred.

Policy. The F&C's clearing firm will be responsible for ensuring proper reports are made on any account that has 200 or more options contracts of any class, on the same side of the market, covering the same underlying security or index.

13.13. Customer Complaints

Requirement. FINRA Rule 2360 requires every member to maintain and keep current a

separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved.

At a minimum, the central file shall include:

- identification of complainant;
- date complaint was received;
- identification of registered representative servicing the account;
- a general description of the matter complained of; and
- a record of what action, if any, has been taken by the member with respect to the complaint.

The term “options-related complaint” means any written statement by a customer or person acting on behalf of a customer alleging a grievance arising out of or in connection with options.

Policy. The ROSFP will be responsible for reviewing and determining the merits of any options-related customer complaint and for ensuring proper documentation is prepared and maintained with respect to such complaint, both at the main office of the broker/dealer and at the corresponding branch office.

Procedure. Each complaint will be investigated individually. At a minimum, however, the ROSFP will obtain from the registered person, a written statement addressing each allegation and discussing the events surrounding the transaction(s) or issues in question and provide a copy to the CCO. The ROSFP may, at his/her discretion or at the direction of the CCO, contact the customer to discuss the complaint, clarify details, relate the registered person’s version of the events, and/or to attempt to resolve the complaint. A memorandum recapping this investigation and outlining any action(s) taken to resolve the complaint will be prepared by the ROSFP and maintained, along with all other related documentation, in the options-related customer complaint file.

13.14. Customer Statements

Requirement. FINRA Rule 2360 requires F&C to send a statement of account, showing security and money positions, entries, interest charges and any special charges that have been assessed to the customer’s account during the period covered by the statement.

Policy. F&C will rely on its clearing firm to send a statement of account, showing security and money positions, entries, interest charges and any special charges that have been assessed to the customer’s account during the period covered by the statement

Procedure. *F&C relies on its clearing firm to prepare and disseminate customer account statements which meet the requirements of this rule. However, the ROSFP, in connection*

with his/her normal supervisory reviews, will ensure statements are being sent to customers and that such statements include complete and accurate information.

13.15. Advertising and Sale Literature for Options

13.15.1. Approval by ROSFP and Recordkeeping

Requirement. FINRA Rule 2220(b) requires that all retail communications (advertisements, sales literature - except completed worksheets), and educational material issued by a member or member organization pertaining to options shall be approved in advance by the Compliance Registered Options Principal or designee.

Policy. All advertisements, sales literature (except completed worksheets), and educational material issued by F&C pertaining to options shall be approved in advance by the Compliance Registered Options Principal or his designee.

Procedures. *Copies of all retail communications/advertisements, sales literature (except completed worksheets), and educational material issued by F&C pertaining to options together with the names of the persons who prepared the material, the names of the persons who approved the material and, in the case of sales literature, the source of any recommendations contained therein, shall be retained by the member and be kept at an easily accessible place for a period of three years.*

13.15.2. Association Approval Requirements and Review Procedures

Requirement. FINRA Conduct Rule 2220(c) requires that every retail communication/advertisement and all educational material pertaining to options be submitted to the Advertising/Investment Companies Regulation Department of the FINRA at least ten days prior to use for approval and, if changed or expressly disapproved, must be withheld from circulation until any changes specified by the FINRA have been made. In the event of disapproval, the advertisement or educational material must be resubmitted for, and has receive, approval, prior to use.

Policy. Every retail communication/advertisement and all educational material pertaining to options will be submitted to the Advertising/Investment Companies Regulation Department of FINRA at least ten days prior to use for approval and, if changed or expressly disapproved, must be withheld from circulation until any changes specified by the FINRA have been made. In the event of disapproval, the advertisement or educational material must be resubmitted for, and has receive, approval, prior to use.

Procedure. *The ROSFP will be responsible for submitting all retail communication/advertisements and educational material pertaining to options to FINRA's advertising department for review prior to use. If changed or expressly disapproved by FINRA, the ROSFP will be responsible to ensure that the advertisement*

or educational material is withheld from circulation and, revised and resubmitted for additional review by FINRA.

13.15.3. Standards Applicable to Communications with the Public

Requirement. FINRA Conduct Rule 2220(d) requires that no member or person associated with a member shall utilize any retail communication/advertisement, educational material, sales literature or other communications to any customer or member of the public concerning options which:

- contains any untrue statement or omission of a material fact or is otherwise false or misleading;
- contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events which are unwarranted or which are not clearly labeled as forecasts;
- contains hedge clauses or disclaimers which are not legible, which attempt to disclaim responsibility for the content of such literature or for opinions expressed therein, or which are otherwise inconsistent with such communication; or
- would constitute a prospectus as that term is defined in the Securities Act of 1933, unless it meets the requirements of Section 10 of said Act.

Policy. F&C will not allow any registered representative or associated person to use any retail communication/advertisement, educational material, sales literature or other communications with any customer or member of the public concerning options which contain provisions specified by the Rule or would otherwise constitute a prospectus as defined in the Securities Act of 1933.

Procedure. *The special risks attendant to options transactions and the complexities of certain options investment strategies must be reflected in any retail communication/advertisement and sales literature or educational material which discusses the uses or advantages of options. Such communications must include a warning to the effect that options are not suitable for all investors. In the preparation of written communications respecting options, the following guidelines shall be observed:*

- *Any statement referring to the potential opportunities or advantages presented by options shall be balanced by a statement of the corresponding risks. The risk statement shall reflect the same degree of specificity as the statement of opportunities, and broad generalities should be avoided.*
- *It shall not be suggested that options are suitable for all investors.*
- *Statements suggesting the certain availability of a secondary market for options shall not be made.*

At a minimum, F&C's ROSFP will be responsible to ensure that all options communications meet the standards of communication specified by the Rule.

Specific Supervisory Responsibilities

Function:	Options
Principal assigned:	CCO
Title:	ROSFP
Location	Minneapolis, MN
Registrations:	Series 4
Effective Date:	July 16, 2014

RESPONSIBILITIES

- Ensure registered representatives are properly registered with the FINRA, and ensure proper state registration for F&C and registered representatives with respect to options.
- Review and approve all new option accounts, ensuring all required information is included and the agreement has been signed by the customer. Such review shall include analysis of the information regarding the customer's background, financial situation, and investment experience in approving an options trading strategy.
- Ensure customer has signed the option account agreement within 15 days of account approval, with follow-up on any deficiency.
- Review and approve daily all option order tickets, monitoring for suitability, accuracy and completeness.
- Ensure current "OCC" prospectus is delivered to customers prior or at the time an option account is opened, and the Special Statement

Periodically, but no less than quarterly, review all option accounts and activity to ensure continued compliance with applicable rules, including but not necessarily limited to suitability, excessive activity, acting in concert, and/or trading within approved strategy. Such review will be evidenced by initialing the account statement.

- Monitor accounts for exercise and position limit violations.
- Ensure exercise notices are promptly transmitted to the clearing firm and resulting transactions are properly executed.
- Ensure exercise allocations are properly administered and resulting transactions are executed accordingly.
- Review and approve in writing all option related advertising and sales literature and ensure they are file with the FINRA when necessary.
- Monitor and resolve all option related customer complaints, evidencing review and resolution in a written log.

14. Investment Company Shares/Mutual Funds

14.1. Introduction

A mutual fund, otherwise known as an investment company, is a corporation which pools together investor's money generally to purchase stocks and bonds. Investors participate in the mutual fund by purchasing shares of the entire pool of assets, thus diversifying their investment. The pooled assets are invested by professional managers who buy and sell securities on behalf of the investors. The most common type of mutual funds are closed –end and open-end funds.

A closed-end fund has a fixed number of shares outstanding and is traded just like other stocks on an exchange or over the counter. The more common open-end funds sell and redeem shares at any time directly to shareholders. Sales and redemption prices of open-end funds are fixed by the sponsor based on the fund's net asset value; closed-end funds may trade a discount (usually) or premium to net asset value.

A unit investment trust or UIT is an investment company that is registered with the SEC. The trust buys a portfolio of securities, such as corporate, municipal or government bonds, or stocks, and holds them with little or no change to the investments for the life of the trust. Because the portfolio generally remains fixed and does not require day-to-day management, a UIT is supervised rather than managed. When the trust expires—either when the bonds mature or, in the case of stocks, at a specified future date—the trust is dissolved, and the proceeds are paid to the unit holders. Under limited circumstances securities may be sold before termination to protect the interests of the unit holder.

UITs are required to buy back outstanding units at their current net asset value (NAV), which is based upon the market value of the underlying securities and may be more or less than the initial purchase. UITs can be redeemed by a customer at any time. A secondary market also exists for UITs, where a firm will offer the NAV to a redeeming unit holder then subsequently resell the units. The UIT holder has the right to redeem their units at NAV at any time.

In general, mutual funds (except for money market mutual funds) are more suitable as long-term investments rather than short-term trading. Also, investors should be made aware that mutual funds, unlike bank accounts, are not FDIC-insured.

Requirement. The obligation of F&Cs with respect to mutual fund sales practices is an ongoing concern. The proliferation of new mutual funds and varied fee structures has significantly increased the options available for investors. As a result, the mutual fund selection process has become more complex. To make appropriate recommendations,

F&Cs and its associated persons must know the key points regarding the mutual funds they recommend or sell. F&Cs must ensure:

- 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;
- if an expense ratio is represented as an advantage of a particular fund, it is explained in the context of and compared with other mutual fund expense ratios;
- if a mutual fund portfolio may include financial derivatives, the potential risks involved are fully disclosed and explained;
- when performance information is presented, the concepts of total return, yield, and distribution rates are explained to and understood by the investor;
- any recommendation made is suitable and based on the investor's investment objectives;
- any recommendation that a customer switch mutual funds is made with the investor's best interest in mind, rather than based on incentives received by the associated person;
- materials designed for internal or "dealer only" use are not distributed in any manner to the public, orally or in writing; and
- electronic communications are treated the same as any other advertising and/or sales literature, and are supervised and used only under the same parameters.

If F&C fails to carry out these obligations and responsibilities, or does not communicate information concerning mutual funds accurately and completely, they may be subject to disciplinary action.

F&C will be involved in the purchase or sale of closed-end funds or UITs. All closed-end funds and UITs trades will be supervised in the same manner as all other trades.

All expenses related to owning a mutual fund should be disclosed to potential customers. They include:

- **Front-end load:** A front-end load is a sales charge you pay when you buy shares. This type of load, which by law cannot be higher than 8.5% of your investment, reduces the amount of your investment in the fund.
- **Back-end load:** A back-end load (also called a *deferred load*) is a sales charge you pay when you sell your shares. It usually starts out at 5% or 6% for the first year and gets smaller each year after that until it reaches zero (say, in year six or seven of your investment).
- **12b-1 fees:** A 12b-1 fee is the percent of a mutual fund's assets used to defray marketing and distribution expenses. The amount of the fee is stated in the fund's prospectus. 12b-1 fees commonly range from .25% to up to 1% of the fund's average annual net assets. No-load funds can carry 12b-1 fees as long as it is less than .25%. If a fund charges a 12b-1 fee it is required to disclose it in its expense ratio. A true "no load" fund has neither a sales charge nor 12b-1 fee.

A firm may process a client's mutual fund order in several ways. A "wire-order trade" refers to the purchasing or redemption of investment company shares via the telephone.

and other electronic means. Firms engaging in wire-order transactions must fully comply with the requirements of SEC Rule 17a-3 and 17a-4, including the use of a time-stamped order ticket. F&C must also promptly transmit all customer funds to the product sponsor or clearing firm.

The term "Held Directly" refers to the method where a customer completes an application and attaches a check payable to the fund. F&C will then forward the application and check to the fund. Through NFS, customers can also hold mutual funds in their accounts.

Procedure. All registered representatives must comply with the following procedures when offering "Held Directly" mutual funds to customers:

- *Each transaction must include a completed fund application, signed and dated by both the customer and the registered representative;*
- *Each transaction must include a completed account application which contains all required information about the customer(s) and which is signed and dated by the registered representative;*
- *Each transaction must be evidenced on the transaction blotter of both the registered representative and F&C; and*
- *Each transaction must include a check for the proper amount from the customer. The check must be made payable to the mutual fund company.*
- *Once completed, the entire package must be submitted to and reviewed by the Branch Manager for review and then forwarded to the CCO or his/her designee who will then do a secondary review to assure all items are present and complete and the transaction does not appear to be unsuitable. Once the transaction is approved, copies will be made and the application package will be forwarded to the mutual fund distributor.*
- *Under no circumstances is the registered representative allowed to send the mutual fund application and the check directly to the distributor.*
- *All purchases of mutual funds must be paid in full at the time of the order, and all payments must be in the form of check or money order and payable only to the mutual fund distributor. F&C will not accept cash in lieu of payment.*

14.2. Breakpoint Sales

Requirement. In the context of mutual fund sales, a "breakpoint" is that point at which the sales charge is reduced for quantity purchases of fund shares. FINRA Rule 2342 (Formerly NASD Rule IM-2830-1) prohibits sales of mutual fund shares in amounts below

breakpoints, if such sales are made “so as to share in higher sales charges.”

Policy. F&C will comply with FINRA Rule 2342 which prohibits sales of mutual fund shares in amounts below breakpoints if such sales are made “so as to share in a higher sales charge”.

Procedure.

The Branch Managers will be responsible for reviewing mutual fund transactions for breakpoint violations. Each trade will be checked for accuracy against F&C’s internal customer account records for rights of accumulation.

F&C utilizes clearing firm software to track all customer account investments and dividends reinvested on monthly customer statements to assist in this effort. Finally, every trade will now be checked by the Branch Manager and Compliance after it is made and errors will be reported to the trade desk for correction ASAP. Also, fund prices will be confirmed as an added measure.

Any transaction split among different funds with similar investment objectives will be analyzed to determine if a similar strategy within a family of funds would have resulted in a lower sales charge to the customer. Any questionable transactions will be reviewed with the registered representative and if necessary, with the customer. At his discretion, the CCO may cancel the original trade and direct reinvestment to achieve lower costs. Such situations may result in a fine and/or termination of the registered person.

14.3. Rights of Accumulation

Requirement. Rights of Accumulation are similar to a Letter of Intent in that they provide a cumulative discount in the form of a lower sales charge to the investor. There are two primary differences between Letters of Intent and Rights of Accumulation. Whereas a Letter of Intent applies to purchases within a thirteen month period, there are no time limits applied to the Rights of Accumulation provision. Secondly, Rights of Accumulation provide that only the current purchase can benefit from the lower breakpoint sales charge; all purchases under a Letter of Intent over a 13-month period qualify for the lower sales charge.

Policy. The CCO or his designee will be responsible for reviewing for breakpoint violations.

Procedure. *Such review will be part of the required periodic review of customer accounts required by Conduct Rule 3110. Multiple investments by a customer in a fund or funds over a 12-month period will be analyzed to determine if such customer could have benefited by a Letter of Intent or Rights of Accumulation. Oftentimes, the mutual fund company will notify the broker/dealer if a customer may qualify for a lower sales*

charge under such agreements.

Failure by the registered representative to assure a customer's investment(s) qualified for a lower sales charge by obtaining a Letter of Intent or Rights of Accumulation will be addressed on a case-by-case basis. Deliberately failing to inform the customer of the availability of such options will be dealt with more severely than simply failing to realize the fact the customer qualified for such discounts.

14.4. Switching

Requirement. FINRA rules require written authority from a customer before a member or a registered representative can exercise discretion in the customer's account. Negative-response letters permit the automatic execution of a recommendation in such letters if a customer does not respond to the letter by a specific date. Absent prior written authority from a customer, the use of a negative-response letter to facilitate an exchange of securities in a customer account would normally violate FINRA rules.

Policy. F&C has an obligation to ensure that their supervisory and compliance procedures are adequate to monitor switching of customers among funds and should be prepared to document their reasons for switching a customer from one fund to another.

Procedure. *F&C will obtain a "switch letter" for any transaction involving the redemption and reinvestment of customer funds. The switch letter should include the reasons for the switch, the sales charge resulting from the transaction, and an attestation by the customer that all relevant factors including compensation to the registered person have been disclosed. The letter must be signed by the customer(s). No switch transaction will be approved absent a switch letter.*

The CCO (or his/her designee) will also review for potential switching violations in situations where the transaction was not identified as a switch. Most switches occur on different days and often in different months. Such review will focus primarily on accounts of recently hired representatives, accounts transferred from other broker/dealers, at month end, or in relation to purchases made as part of a sales contest in which this pattern may be more prevalent. The CCO (or his/her designee) will investigate any suspicious transactions or activity by interviewing the registered representative on the account, and if necessary, contacting the customer. Depending on the results of such review, the CCO may, at his discretion, take whatever action is deemed appropriate, including but not limited to, reversing the trade and disciplining or terminating the registered representative.

Switching involves moving a customer's money out of one fund and into a similar fund in a different family, primarily in an attempt to generate commissions. F&C has an obligation to ensure that any recommendation to switch mutual funds is evaluated with regard to the net investment advantage to the investor. Switching among certain fund

types may be difficult to justify if the financial gain or investment objective to be achieved by the switch is undermined by the transaction fees associated with the switch. For example, if F&C recommends that an investor redeem a mutual fund purchased with a front-end sales load, and then purchase another fund with a contingent deferred sales charge, it would be inappropriate to assert that no sales charge will be paid relative to the new fund purchase because the investor may redeem the shares before the contingent period ends. Additionally, many funds with contingent deferred sales charges also assess asset-based sales charges.

Thus, F&C must disclose that an investor who holds the fund long term may pay more than the economic equivalent of a front-end sales charge. Further, recommendations to engage in market timing transactions should be made for transactions in a single family of funds or where there are virtually no transaction costs associated with the trade. Recommending that a customer switch from one mutual fund to another for the purpose of generating commissions is prohibited.

14.5. Selling Dividends

Requirement. Firms are not permitted to recommend the purchase of investment company securities, state or imply that the purchase of such securities shortly before an ex-dividend date is advantageous to the purchaser unless there are specific, clearly described tax or other advantages to the purchaser and firms will not represent that distributions of long-term capital gains by an investment company are or should be viewed as part of the income yield from an investment in such company's securities.

Policy. F&C will not, in recommending the purchase of investment company securities, state or imply that the purchase of such securities shortly before an ex-dividend date is advantageous to the customer, unless there are specific, clearly described tax or other advantages in doing so, and F&C will not represent that distributions of long-term capital gains by an investment company are or should be viewed as part of the income yield from an investment in such company's securities.

Procedure. *Dividends and capital gains are included in the price of a mutual fund shares and, on the ex-dividend date, the shares will decline in price by the amount of such distribution. Because of this, there is no advantage to purchasing shares in a mutual fund in anticipation of a distribution. There are also two disadvantages to such transactions: First, the customer would pay an increased and unnecessary sales charge, and second, the customer may incur a tax liability.*

It is CCO's responsibility to ensure that Branch Managers are reviewing for selling dividends. Such review will be accomplished by assuring no correspondence or sales literature is disseminated to customers, which represents that an advantage would be gained by purchasing mutual fund shares in anticipation of a distribution. Further, since most funds pay dividends quarterly and capital gains annually, any investments made just

prior to those dates will be looked at closely. Random contact with customers may be implemented in the event the compliance review indicates possible problems. As with any potential problem, the CCO will interview the registered person and take appropriate action.

14.6. Suitability

Requirement. Material facts must be disclosed to customers in recommending the purchase of a mutual fund.

Policy. F&C will attempt to obtain information sufficient to determine the suitability of the recommendation for the investor and to evaluate whether factors concerning that mutual fund recommendation are material to the investor.

Procedure. *Material facts may include, but are not limited to, the fund's investment objective; the fund's portfolio, historical income, or capital appreciation; the fund's expense ratio and sales charges; risks of investing in the fund relative to other investments; and the fund's hedging or risk management strategies. Disclosure of these and other facts concerning a recommended investment is required because this information is material to the investor's investment decision. F&C should familiarize itself with a fund's investment objective, portfolio techniques, and policies as noted in the prospectus, and should convey such information to investors.*

A starting point in F&C's recommendation of a mutual fund is to clearly define the investor's objectives and financial situation. The need for current income, liquidity, diversification, and acceptable levels of risk are important considerations common to most investors. In recommending mutual funds, F&C should match the investor's objective with the stated objective and investment strategy of a particular fund.

The CCO will be responsible for ensuring that Branch Managers are reviewing for suitability of mutual fund transactions. The focus of such review will include the accounts of elderly or retired persons, of new investors, and of investors with conservative investment objectives, as well as accounts of registered representatives who generated their largest percentage of commission income from mutual funds. Investments deemed unsuitable by the Branch Managers will be escalated and discussed with the registered representative and, if indicated, with the customer. Such transactions may be reversed at the option of the customer with the registered representative being subject to a fine and possible termination.

14.7. Contingent Deferred Sales Charge

Requirement. FINRA Rule 2342 (formerly NASD Rule 2830(b)(8)) defines "sales charges" to include front-end, deferred and asset-based sales charges. FINRA Rule 2342 (formerly NASD Rule 2830(d)(3)) prohibits F&C from describing a fund as a "no-load" fund if the investment company has (i) a front-end or a deferred sales charge or (ii) an asset-based

sales charges and/or service fees that exceeds .25 of 1% of average annual net assets.

Policy. F&C prohibits registered representatives from describing a fund as a "no-load" fund if the investment company has (i) a front-end or a deferred sales charge or (ii) an asset-based sales charges and/or service fees that exceeds .25 of 1% of average annual net assets.

Procedure. *A Contingent Deferred Sales Charge, sometimes known as a "back-end load", is a sales charge imposed when the investor redeems shares from a mutual fund. This charge is a percentage of the amount withdrawn. Normally, a time limit is established and the percent charged declines over this stated period of time. For example, a six-year CDSC might decline 1% per year; first year sales charge of 6% upon redemption, second year charge of 5%, third year charge of 5% etc.*

To assert that a mutual fund with either a front-end or a contingent deferred sales charge or an asset-based sales charge and/or service fees exceeding .25% of annual net assets is a "no-load fund" is a misrepresentation, and to state that there is "no initial load" without explaining the nature of the deferred sales charge or asset-based sales charges and/or service fees is an omission of material information. To say or imply that such funds are no load funds is a violation of FINRA Rule 2010 (formerly NASD Rule 2110), which is not alleviated by disclosures about these charges in a mutual fund's prospectus.

The industry has experienced a large increase in the practice of representatives recommending the purchase of mutual funds shares with CDSCs ("B" Shares) using the proceeds from the sale of another fund. Such movement must also be justified since these also generate commissions to F&C and registered representatives. Claims that the customer pays no sales charge on purchasing the new fund must be weighed against comparative merits of the redeemed fund and the new fund. In addition, the "B" share fund can still invoke the contingent sales charge if the customer redeems before the contingent sales period expires. Also, many funds with CDSCs higher carry 12b-1 fees than other share classes, which may cause long-term shareholders to pay more than the economic equivalent of the maximum permitted with a front-end sales charge. Large purchases of such funds, i.e. in excess of \$100,000 should be carefully evaluated against the share types that may be available.

The CCO (or his/her designee) will be responsible for ensuring registered representatives are not switching investor funds from front-end to back-end loaded funds in order to generate commissions. Such review will be accomplished in conjunction with reviews for breakpoints and switching. The CCO will also ensure Branch Managers, when reviewing correspondence, make sure no statements are made which may mislead the customer into believing CDSC funds are "no-load" or have no initial load. Suspicious transactions and/or activity will be initially discussed with the registered representative and, if necessary, with the customer. The CCO will take appropriate action, which will be determined on a case-by-case basis, and may result in a fine to the registered representative or termination.

14.8. Sales Agreements

Policy. F&C, if an underwriter of mutual funds, can only sell such securities to another broker or dealer at the public offering price. If the fund is open-ended or a UIT and invests primarily in the securities issued by other investment companies, F&C cannot sell such securities unless a sales agreement is in effect between the parties as of the date of the transaction. This agreement will set forth the concessions to be received by the broker or dealer.

Procedure. *The CCO will ensure that sales agreements are obtained and maintain for each mutual fund product offered by F&C when applicable.*

14.1 Prospectus Delivery

Requirement. F&C is required under Section 5 of the Securities Act of 1933 to furnish a copy of the most current prospectus in connection with the offer or sale of all registered securities. This prospectus must be delivered prior to or concurrently with the confirmation of the purchase.

Policy. Registered representatives must ensure that a current prospectus is provided to customers when discussions take place regarding a potential investment in such fund by the customer. Any indication of a prospectus not being offered to customers in connection with the offer or sale of a mutual fund will be investigated and handled on a case-by-case basis by the CCO. F&C may rely on its clearing agent to provide a current prospectus to a customer but ultimate responsibility lies with F&C to ensure delivery takes place.

14.9. Redemption Procedures

Requirement. Investment Company Act Rule 22c-1(a) generally 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. It is a violation of FINRA Rule 2110, and may be a violation of the federal securities laws and FINRA Rule 2120, for member firms and their associated persons to knowingly or recklessly effect mutual fund transactions that are priced based on NAV that is computed prior to the time the order to purchase or redeem was given by the customer.

Policy. F&C will ensure 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.

Procedure. *If the customer requests liquidation of an outside open-end mutual fund held by the fund, the RR should obtain the customer's signed letter authorizing liquidation. Required signature guarantees should be obtained from Operations, if required, prior to*

forwarding the letter to the fund.

14.10. Prospectus Review

Requirement. Firms must review the prospectus of the investment company products it intends to sell, as part of its general due diligence.

Policy. F&C will review the prospectus of investment company products it intends to sell as part of its general due diligence.

Procedure. *The CCO and other such due diligence officer, in reviewing and approving mutual fund products eligible for sale by F&C will review each funds prospectus for complete disclosure of required information.*

Once F&C has made a reasonable determination that the product would be suitable for its clients, it can be place on the approved product list. F&C will maintain a record of its review of all products.

14.11. Sales Literature/Advertising

Requirement. Firms must file advertisements and sales literature concerning registered investment companies (including mutual funds, variable contracts and unit investment trusts) with FINRA Advertising Department within 10 days of first use or publication.

Policy. F&C will file advertisements and sales literature concerning registered investment companies (including mutual funds, variable contracts and unit investment trusts) with FINRA Advertising Department within 10 days of first use or publication. F&C is not required to file advertising and sales literature, which have been filed previously by the underwriter, the distributor, or another entity; provided that the material is used without change.

Procedure. *The CCO will be responsible for reviewing and assuring all Fund advertising and/or sales literature, if already approved by the FINRA, is used without change. If not previously reviewed by the FINRA, or if the advertising has changed materially such that re-filing is required, the CCO will ensure the advertising and/or sales literatures is filed within 10 days of first use.*

Specific Supervisory Responsibilities

Function:	Investment Company Securities
Principal assigned:	CCO & Compliance Officer
Location:	Minneapolis, MN
Registrations:	4, 7, 24, 55, 63, 66, 87
Effective Date:	July 16, 2014

RESPONSIBILITIES

- Review transactions and several consecutive months of customer statements for potential violations including breakpoints, switching, and selling dividends.
- Review applications for suitability, accuracy and completeness.
- Ensure all required information and documentation is present and copies are made for retention in F&C files.
- Monitor all sales charges for excessiveness, including any fees charged in assisting a customer with the redemption of a no-load fund.
- Monitor all transactions and correspondence for potentially misleading disclosures such as presenting a Contingent Deferred Sales Charge fund as a “no load” or “no initial load” fund.
- Ensure selling agreements are obtained and maintained for all mutual fund products offered by F&C.
- Review prospectus for each mutual fund product offered for full disclosure.
- Ensure that a prospectus is provided to customers upon the offer or sale of mutual fund shares.
- Review and approve advertising and/or sales literature to assure compliance with applicable disclosure and filing requirements

15 Municipal Securities

15.1 Supervisory Responsibilities

MSRB Rule G-27 - Supervision

Requirement. MSRB Rule G-27(a) requires F&C to supervise the conduct of its municipal securities business and the municipal securities activities of its associated persons to ensure compliance with Board rules. As MSRB Rules mirror FINRA and SEC rules in a number of areas, particularly supervision, which have been addressed in other sections of these procedures, this section will deal with only those areas specific to municipal securities activities.

Policy. The Municipal Securities Principal will be responsible for the supervision of F&C's municipal securities business and the municipal securities activities of its associated persons.

MSRB Rule G-27(b)

Requirement. MSRB Rule G-27(b) requires F&C to designate one or more qualified persons as municipal securities principals to be responsible for the supervision of the municipal securities activities of F&C and its associated persons. F&C must maintain a written record of each supervisory designation, which record must be updated and maintained.

Policy. F&C will designate one or more Municipal Securities Principal(s) who will be responsible for supervision of municipal securities activity.

Procedure. *The designated supervisor is responsible for reporting required information and paying assessment fees to the MSRB regarding new issues. The designated supervisor is also responsible for paying the annual fee to the MSRB.*

Municipal securities sales supervisors are permitted to supervise customers' transactions in municipal securities. Individuals who complete the Series 8 General Securities Sales Supervisor examination are qualified as municipal securities sales supervisors. Supervision is limited to sales of municipal securities to customers.

The Series 53 examination qualifies individuals for the registration status of municipal securities principal which permits the individual to supervise all aspects of F&C's municipal business. Qualified municipal principals will be designated to supervise the areas of underwriting, trading, and pricing of inventories.

MSRB Rule G-27(c)

Requirement. MSRB Rule G-27(c) requires F&C to adopt, maintain and enforce written supervisory procedures that are reasonably designed to ensure compliance with all MSRB Rules and the Exchange Act.

Policy. F&C will adopt, maintain and enforce written supervisory procedures that are reasonably designed to ensure compliance with all MSRB Rules and the Exchange Act.

MSRB Rule G-27(d)

Requirement. MSRB Rule G-27(d) requires F&C to revise and update its written supervisory procedures as necessary to respond to changes in applicable rules and as other circumstances require. F&C is required to review, at least annually, its supervisory system and written supervisory procedures to determine whether they are adequate and current.

Policy. The CCO is responsible to revise and update F&C's written supervisory procedures as necessary to respond to changes in applicable rules and as other circumstances require.

Procedure. *The CCO and the Municipal Principal(s) will review, at least annually; its supervisory system and written supervisory procedures related to municipal securities to determine whether they are adequate and current and amend them accordingly.*

15.2 Books and Records

MSRB Rule G-9 - Preservation of Records

This rule is addressed in the Books and Records part of this section.

Procedure. *F&C will maintain a copy of the MSRB Manual and all required records according to the retention schedule prescribed by the Rules.*

MSRB Rule A-12 and A -14 - Initial/Annual Fee to the MSRB

Requirement. MSRB Rule A-12 requires F&C, prior to effecting any transactions in, or attempting to solicit any transactions in, municipal securities, to become a member of the MSRB and to pay to the MSRB a fee of \$100.00. This fee must be accompanied by any information requested by the MSRB in order to grant membership. In addition, MSRB Rule A-14 requires F&C to pay an annual fee to the MSRB. F&C will retain evidence of both their initial registration and subsequent renewals.

Policy. The Municipal Securities Principal will be responsible for ensuring all required fees are paid in a timely manner and evidence of such payments are retained.

MSRB Rule G-8 and G-9 - Books and Records

Requirement. MSRB Rule G–8 requires F&C to make and keep current certain specified records concerning their municipal securities business. MSRB Rule G–9 requires that records relating to F&Cs municipal securities business be preserved for the time period specified in the rule.

Policy. F&C will comply with the requirements of MSRB Rules G-8 and G-9.

Procedure. *F&C will make and keep current its books and records in compliance with SEC Rules 17a-3 and 17a-4. F&C will also prepare and maintain the additional records required by MSRB Rules G-8 and G-9. The Municipal Principal will monitor F&C’s books and records to ensure they are properly prepared and maintained.*

If F&C is in compliance with SEC Rules 17a-3 and 17a-4, they will be deemed in compliance with MSRB Rules G-8 and G-9 providing that the information stated below is also maintained:

- *Municipal securities transactions not completed on settlement date;*
- *Records of syndicate transactions;*
- *Customer account information;*
- *Customer complaints;*
- *Records concerning delivery of Official Statements to clients;*
- *Designation of persons responsible for recordkeeping;*
- *Records concerning delivery of Official Statements, Advance Refunding Documents and Forms G-36 (OS) and G-36(ARD) to the MSRB;*
- *Records concerning political contributions and Rule G-37 compliance;*
- *Records concerning gifts and gratuities;*
- *Records concerning consultants per Rule G-38 and*
- *Telemarketing related records as required per Rule G-39.*

The trading department will maintain a record of orders in municipal securities consistent with the requirements of MSRB Rule G–8. The designated supervisor is responsible for daily review of transactions.

15.3 Customer Complaints.

MSRB Rule G-8(a)(xii) - Customer Complaints

Requirement. MSRB Rule G-8(a)(xii) requires F&C to maintain a record of all written complaints of customers and persons acting on behalf of customers, and the action taken, if any, by F&C, in connection with each complaint. The term “complaint” means any written statement alleging a grievance involving the activities of F&C or any of its associated persons.

Policy. F&C’s Municipal Principal will maintain a record of all written complaints of customers and persons acting on behalf of customers, and the action taken, if any, by F&C in connection with each complaint.

Procedure. *The Municipal Securities Principal will be responsible for reviewing and determining the merits of any customer complaint. Likewise, the Municipal Principal will advise the CCO of any and all complaints related to municipal securities transactions and business activities immediately upon becoming aware of it and provide the CCO with copies of the written record of the complaint.*

MSRB Rule G-10 – Investor Brochure

Requirement. MSRB Rule G-10 requires F&C to deliver a copy of the MSRB's investor brochure to a customer promptly upon receipt of a complaint by the customer.

Policy. The Municipal Securities Principal will be responsible for delivering and documenting the delivery of the MSRB's Investor Brochure to a customer promptly upon receipt of a complaint.

Procedure. *The Municipal Securities Principal will be responsible for reviewing and determining the merits of any customer complaint. Proper documentation, including at a minimum, the complaint, a memorandum of the investigation into the complaint, a description of the action taken, and evidence of delivery of an MSRB investor brochure, will be prepared and maintained in the customer complaint file. F&C will also maintain a supply of the MSRB investor brochures and evidence that they are provided to customers who make a written complaint to F&C.*

15.4 Reporting

MSRB Rule G-14 - Trade Reporting

Requirement. MSRB Rule G-14 (a) prohibits F&C from distributing or publishing, any transaction report that it knows to be false. The rule further requires F&C to report every transaction with another broker/dealer to the National Securities Clearing Corporation ("NSCC") within the time frame and in the format required by NSCC. Trades that are not eligible for comparison through NSCC need not be reported. The information to be reported includes the time of trade execution and the identity of F&Cs that executed and cleared the transaction. If a clearing/introducing arrangement is used, the trades will be reported as being executed by the introducing firm. If the settlement date is known, the report must also include the value of accrued interest.

Policy. F&C will comply with MSRB G-14 Trade Reporting requirements.

Procedure. *With customer transactions, MSRB Rule G-14 requires F&C to report all transactions with customers by submitting or causing to be submitted, within 15 minutes, the following customer transaction information:*

- *the CUSIP number of the security;*
- *the trade date;*
- *the time of trade execution;*
- *the executing broker symbol identifying the broker, dealer or municipal securities*

- dealer that effected the transaction;*
- *a symbol indicating the dealer's capacity as buyer or seller in the transaction;*
- *the par value traded;*
- *the dollar price of the transaction, exclusive of any commission;*
- *the yield of the transaction;*
- *a symbol indicating the dealer's capacity as agent for the customer or principal in the transaction;*
- *the commission, if any;*
- *the settlement date, if known to the broker, dealer or municipal securities dealer;*
- *a control number, determined by the broker, dealer or municipal securities dealer, identifying the transaction; and*
- *a symbol indicating whether the trade has previously been reported to the MSRB, and, if so, the dealer's control number used for the previous report.*

Any transaction in a security that is ineligible for assignment of a CUSIP number by the MSRB is not required to be reported.

Trades will be reported in such format and manner specified in the current "User's Manual for Customer Transaction Reporting." F&C will promptly report the cancellation of the trade or corrections to any required data items.

Reports of purchases or sales of municipal securities are to be made only if the trader knows or has reason to believe the transaction actually occurred. The municipal trading department is also responsible for reporting transactions to the MSRB or its designee per MSRB Rule G-14. F&C has designated the primary Bond Trader to ensure proper municipal trade reporting. This individual will perform a daily review of the Destination Code report (available on the RTRS website), evidence the review on a daily log and document any action taken, if required.

15.5 Confirmations

MSRB Rule G-15 - Customer Confirmations

Requirement. MSRB Rule G-15(a) requires that, at or before the completion of a transaction in municipal securities with or for the account of a customer, F&C will give or send to the customer a written confirmation of the transaction that complies with this rule.

Updates to Rule G-15 regarding Mark up or Mark down state that firm's must disclose the mark up/mark down on retail (i.e. non-institutional municipal securities if:

- *The dealer also executes one or more offsetting principal transactions, on the same day as the customer transaction, in an aggregate trading size that meets or exceeds the size of the customer trade.*
- *Additionally, the mark up/mark down disclosed on the confirmation must be determined from the PMP of the security*

Policy. The CCO is responsible for establishing procedures regarding the preparation and transmission of customer confirmations, including information required under MSRB Rule G-15.

Procedure. *The confirmation must contain the identity of the parties to the transaction, a description of the securities, the trade date, the settlement date, yield to maturity or dollar price, the capacity in which F&C is acting, and any other specified information. Information on the time of execution and contra party identity in agency transactions must be furnished upon the client’s written request, if not included on the confirmation.*

The firm will review confirmations periodically to ensure, when required, the mark up or mark down is included on all applicable transactions.

15.5.2 Rule G-15 Confirmations link to Emma

Requirement Update to Rule G-15 specifically states that dealers must disclose a security specific URL on all “non-institutional” confirmations in municipal fund securities, even when the mark-up disclosure is not required. The template for the URL is [https://emma.msrb.org/cusip/\[insert CUSIP number\]](https://emma.msrb.org/cusip/[insert CUSIP number]). Dealers may omit the “s” in https. Paper confirms must include the URL and electronic confirms must include a hyperlink.

Policy. The CCO is responsible for establishing procedures regarding the preparation and transmission of customer confirmations, including information required under MSRB Rule G-15.

Procedure. *The firm clears trades through RBC Correspondent Services, as such they are creating the confirmation for these trades. On a periodic basis, the firm will review confirmations to ensure that the link to the security on EMMA is provided and accurate.*

15.5.3 Rule G-15 Time of Execution Disclosure

Requirement: Dealers must disclose the time of execution for all retail transactions, including principal and agency transactions. For institutional trades, dealers may include on the confirmation that the execution time will be furnished upon written request. The disclosure may be in military time or in Eastern Time with an AM PM indicator and may either omit or disclose the seconds without rounding to the minute and be on the front of the confirmation.

Policy. The CCO is responsible for establishing procedures regarding the preparation and transmission of customer confirmations, including information required under MSRB Rule G-15.

Procedure. The firm clears trades through RBC Correspondent Services, as such they are creating the confirmation for these trades. On a periodic basis, the firm will review confirmations to ensure that the execution time is properly disclosed on the confirmation.

15.6 Customer Accounts

MSRB Rule G-8(a)(xi)- Customer Account Information

Requirement. MSRB Rule G-8(a)(xi) requires F&C to obtain a record for each customer, other than an institutional account, setting forth certain information to the extent applicable to such customer.

Policy. RRs are required to obtain pertinent information about customers (depending on the type of customer) regarding financial background, tax status, investment objectives, and other information to assist in the evaluation of suitability of recommendations. If the customer refuses to provide the requested information, the new account form should be so marked. RRs are required to have a reasonable basis to believe recommendations are suitable.

Procedure. *Registered Representatives will obtain a record for each customer, other than an institutional account, setting forth the following information to the extent applicable to such customer:*

- *customer's name and residence or principal business address;*
- *whether customer is of legal age;*
- *tax identification or social security number;*
- *occupation;*
- *name and address of employer;*
- *information about the customer used pursuant to rule G-19(c)(ii) in making recommendations to the customer. For non-institutional accounts, all data obtained pursuant to rule G-19(b) shall be recorded.*
- *name and address of beneficial owner or owners of such account if other than the customer and transactions are to be confirmed to such owner or owners;*
- *signature of municipal securities representative or general securities representative introducing the account and signature of a municipal securities principal, municipal securities sales principal or general securities principal indicating acceptance of the account;*
- *whether customer is employed by another broker, dealer or municipal securities dealer; and*
- *in connection with the hypothecation of the customer's securities, the written authorization of, or the notice provided to, the customer.*

The term "institutional account" shall mean the account of:

- *a bank, savings and loan association, insurance company, or registered investment*

- company;*
- *an investment adviser registered under Section 203 of the Investment Advisers Act of 1940; or*
- *any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.*

For institutional accounts, firms must maintain a record of:

- *customer's name and residence or principal business address;*
- *tax identification or social security number;*
- *information about the customer used pursuant to rule G–19(c)(ii) in making recommendations to the customer. For non–institutional accounts, all data obtained pursuant to rule G–19(b) shall be recorded.*
- *signature of municipal securities representative or general securities representative introducing the account and signature of a municipal securities principal, municipal securities sales principal or general securities principal indicating acceptance of the account;*
- *in connection with the hypothecation of the customer's securities, the written authorization of, or the notice provided to, the customer.*

The Municipal Securities Principal will be responsible for ensuring all required new account information is obtained prior to the settlement of any transactions for the account. In addition, the Municipal Securities Principal will ensure all required information is maintained for the requisite period.

15.7 Suitability

MSRB Rule G–19. Suitability of Recommendations; Discretionary Accounts

Requirement. MSRB Rule G-19 requires F&C to 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).

Policy. Prior to recommending municipal securities to a non-institutional account, F&C will make a reasonable effort to obtain the following information:

- The customer's financial status;
- The customer's tax status;
- The customer's investment objective; and
- Such other information that would be considered reasonable and necessary in order for F&C to make recommendations to the customer.

Procedure. *In recommending to a customer any municipal security transaction, F&C must have reasonable grounds based upon information available from the issuer of the security or otherwise, and based upon the facts disclosed by such customer or otherwise known about such customer for believing that the recommendation is suitable.*

RRs are required to obtain pertinent information about customers (depending on the type of customer) regarding financial background, tax status, investment objectives, and other information to assist in the evaluation of suitability of recommendations. If the customer refuses to provide the requested information, the new account form should be so marked. RRs are required to have a reasonable basis to believe recommendations are suitable.

The Municipal Securities Principal will be responsible for ensuring recommendations of municipal securities are suitable by reviewing the proposed transaction and comparing it against new account information to ensure consistency with the customer's investment objectives and financial situation. Any questionable transaction will be discussed with the registered representative and, if necessary, the customer. The Municipal Securities Principal will have ultimate authority to accept, investigate, adjust, or refuse any transaction that is questionable based on all available information.

In addition, the Municipal Securities Principal will review all municipal customer account statements at least quarterly to ensure consistency with the customer's investment objectives and financial situation and to detect and prevent violations of applicable securities laws and regulations.

15.7.1 Discretionary Accounts

Requirement. Under MSRB Rule D-10 "discretionary account" means the account of a customer carried or introduced by F&C where F&C is authorized to determine what municipal securities will be purchased, sold or exchanged by or for the account. Price and time discretion does not make an account discretionary.

Under MSRB Rule G-19(d), F&C is required to obtain the prior written authorization of the customer, which must be accepted in writing by a municipal securities principal or municipal securities sales principal, before any transaction may be effected for a discretionary account.

Under MSRB Rule G-27(c), each transaction in a discretionary account must be promptly reviewed and approved in writing by a municipal securities sales principal and each account with discretionary authority must also be reviewed at frequent intervals in order to detect and prevent irregularities and abuses.

Policy. F&C will not affect a transaction in municipal securities with or for a discretionary account. **F&C does not allow discretionary accounts. See Section 8.5 for more details regarding this restriction and the parameters for "time and price" discretion.**

15.7.2 Minimum Denominations

Requirement. Under MSRB Rule G-15(f) a broker, dealer or municipal securities dealer

shall not effect a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the Issue.

Exceptions to this requirement consist of the below situations:

- The purchase of securities from a customer in an amount below the minimum denomination if the broker, dealer or municipal securities dealer determines that the customer's position in the issue already is below the minimum denomination at that the entire position would be liquidated by the transactions; or
- A sale of securities to a customer in an amount below the minimum denomination if the broker, dealer or municipal securities dealer determines that the securities position being sold is the result of a customer liquidating a position below the minimum denomination, as described above.

Additional detail to the exceptions identified above can be found under MSRB Rule G-15(f)(ii-iii). This includes that a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

Policy. The designated supervisor is responsible for ensuring all municipal transactions are made in amounts equal to or greater than the minimum denomination of the offered product. When supervising transactions, the designated supervisor will confirm the minimum denomination of the municipal security by reviewing the prospectus or other summary document.

Procedure. *A municipal securities principal will confirm, at time of transaction or before, that municipal transactions are made in amounts equal or greater than the minimum denomination of the issue. On a monthly basis, compliance will review the FINRA MSRB G-15(f) Trades Below Minimum Denomination report to confirm there were no transactions below the minimum denomination, If there are any possible transactions that are indicated on the report as below minimum denomination, they will be reviewed with the municipal securities principal to verify if they were in fact below minimum denomination. If the transaction is actually at or above minimum denomination for that issue, this will be documented, as well as if the transaction qualified for an exception as stated above. If the transaction is indeed below minimum denomination, without an exception, then any action taken to resolve the issue will be documented.*

15.8 Municipal Underwriting Activities

MSRB Rule A-13 - Transaction Assessments

Requirement. MSRB Rule A-13(c) requires firms to pay a fee equal to \$.005 per \$1,000

of the total par value of reportable inter-dealer municipal securities transactions, either principal or agency, that are part of a primary offering of securities.

Policy. The designated supervisor is responsible for reporting required information and paying assessment fees to the MSRB regarding new issues. The designated supervisor is also responsible for paying the annual fee to the MSRB.

MSRB Rule G-12 - Uniform Practice

Requirement. MSRB Rule G-12 covers the following matters:

- Establishment of uniform settlement dates;
- Exchange and comparisons of dealer confirmations;
- Procedures for resolving discrepancies in confirmations that result in unrecognized transactions;
- Establishment of uniform requirements for good delivery of municipal securities;
- Procedures for rejection and reclamation of municipal securities;
- Close-out procedures for transactions in municipal securities; and
- The time periods within which good faith deposits must be returned, syndicate accounts settled and credits from designated orders distributed.

Policy. When F&C acts as managing underwriter, it is responsible for the following regarding the issue which is the subject of the underwriting. The designated supervisor is responsible for establishing procedures to comply with the requirements.

Procedure. The designated municipal supervisor is responsible for establishing procedures to comply with the requirements:

- a) Settle the syndicate account within 60 days following the date all securities have been delivered by the syndicate or account manager to the syndicate or account members (G-12[j])***
- b) Distribute designated credits within 30 days following delivery of the securities to the customer (G-12[k])***

All municipal securities transactions for F&C will be processed through its clearing firm and F&C will rely on the clearing agent for the correct processing of its client's municipal securities transactions.

MSRB Rule G-32 - New Issue Securities

Requirement. MSRB Rule G-32 requires a firm participating in the sale of any new issue municipal securities to a customer to provide a final official statement by settlement date, if one is prepared by the issuer. Other information is required to be disclosed in the case of a negotiated offering.

Policy. F&C will comply with the requirements of MSRB Rule G-32

Procedure. *The following procedures have been established to insure timely compliance with the requirements of New Issue Municipal Underwritings. Emphasis is placed on satisfying Municipals Securities Rulemaking Board (MSRB) rules specifically Rule G-32 and SEC Rule 15c2-15.*

15.8.1 Official Statements

Providing Official Statements to Dealers, Purchasers And Others (Rule G-32). The following requirements apply to the providing of official statements:

- c) Except in competitively bid offerings, F&C will provide a preliminary official statement (if one exists), upon request, by the next business day after the request, by first-class mail or equally prompt means.*
- F&C will contract with the issuer or its designated agent to receive, within 7 business days after any final agreement to purchase, offer, or sell, sufficient copies of the final official statement to be provided with purchasers' confirmations.*
- A final official statement, if one exists, will be provided by settlement date to all purchasers of a new issue municipal security.*
- If a preliminary official statement is available but no final official statement is being prepared, the preliminary official statement will be provided to customers purchasing the new issue with a disclosure that no final official statement will be prepared by the issuer.*
- A final official statement will be sent upon request, by first-class mail or an equally prompt means, to any potential customer, from the time the final official statement becomes available until the earlier of: 90 days from the end of the underwriting period; or, until the official statement is available from a municipal information repository, but for no less than 25 days from the end of the underwriting period.*

SEC Rule 15c2-12-Access to Financial and Material Event Information

Requirement. SEC Rule 15c2-12 requires a firm participating in the underwriting of municipal securities to obtain and review an official statement that an issuer deems final. The purpose of this rule is to ensure that a firm has adequate information available prior to making a recommendation to a client to purchase a municipal security.

Policy. F&C must have a reasonable basis for recommending any securities and, in fulfilling that obligation, they must review the accuracy of statements made in connection

with the offering.

Procedure. *F&C will not underwrite municipal bonds unless the issuer pledges to provide annual reports and ongoing disclosure of material events as required by Rule 15c2–12. Such pledge will be included in the underwriting agreement or other agreement with the issuer. This requirement applies to issues of an aggregate amount of \$1,000,000 or more.*

F&C has access to a Nationally Recognized Municipal Securities Information Repository (NRMSIR) that provides the required information on issuers. Prior to or at the time F&C agrees to become an underwriter; F&C will review the issuer's information on file with the NRMSIR. A copy of the information retrieved from the NRMSIR will be included in F&C's underwriting file for the issue.

For recommended securities, the Municipal Securities Principal in conjunction with the registered representative and CCO will attempt to ensure adequate financial information is available with respect to the underlying municipal security.

15.9 Political Contributions

MSRB Rule G-37 - Political Contributions

Requirement MSRB Rule G-37 prohibits F&C from engaging in municipal securities business with an issuer within two years after any contribution to an official of such issuer made by F&C, a municipal finance professional associated with F&C or any political action committee controlled by F&C any of its municipal finance professional. These prohibitions will not apply if the only contributions made by these parties were to officials of such issuer for which these parties were entitled to vote and which contributions, in total, were not in excess of \$250.

Policy. Because F&C does not want to be subject to a two-year restriction on its municipal business, employees are required to adhere to the requirements of the rule.

Procedure. *Rule G–38 requires the disclosure of consultants retained by F&C to obtain municipal securities business. Because the rules are extensive and there may be different interpretations depending on the circumstances, it is important to consult with Compliance regarding any questions about the effect of the rule.*

Summary of Key Requirements

- *The types of public finance business included in this rule are acting as a negotiated underwriter (as manager or syndicate member), financial advisor or consultant, placement agent, and negotiated remarketing agent.*
- *The rule applies to contributions made by F&C, any PAC controlled by F&C, public finance professionals, municipal traders and professionals, F&C's executive*

committee, salespersons whose primary (>50%) income is derived from selling municipal securities, and anyone who solicits public finance business on behalf of F&C.

- *Political contributions by F&C or affected employees must be cleared through Compliance prior to making the contribution.*
- *"Contributions" are defined by rule and the recipient of contributions ("official of the issuer") is also defined. Some minimal contributions (\$250 or less) by affected employees who are contributing to officials for whom they may vote are excluded from the rule.*
- *F&C and its employees are prohibited from soliciting others to make contributions to an official of an issuer.*
- *F&C will be required to maintain internal records of affected employees and their contributions and report quarterly to the MSRB.*
- *F&C is required to have written agreements with consultants and disclose consulting arrangements directly to issuers and to the MSRB for public disclosure.*

F&C and its municipal finance professionals may also not solicit any other person to make prohibited contributions on their behalf.

The rule also defines "municipal securities business" and "municipal financial professional, as well as setting forth recordkeeping and reporting requirements regarding political contributions. Under the rule, F&C will not conduct municipal securities business, nor have any municipal financial professionals.

15.9 Consultants

MSRB Rule G-38 - Consultants

Requirement. MSRB Rule G-38 sets forth the requirements regarding the use of consultants to retain municipal securities business. Included are written agreement requirements between F&C and the consultant, disclosure to issuers of consulting arrangements, including the compensation arrangements and disclosure to the MSRB of the use of consultants.

Policy. F&C will use consultants to retain municipal securities business subject to consulting agreements that will be disclosed to issuers, including the compensation arrangements and disclosure to the MSRB.

Procedure.

15.9.1 Definition of Municipal Securities Business

The types of business subject to the rule include acting as a negotiated underwriter (as manager or syndicate member), financial advisor or consultant (on a negotiated underwriting), placement agent, and negotiated remarketing agent. The rule does NOT apply to acting as a competitive underwriter or competitive remarketing agent. Note

that if the

Firm engages a consultant to secure municipal business, the consultant's contributions will affect F&C's ability to handle municipal business on behalf of the issuer. "Seeking to engage in municipal securities business" is also included under the rule and includes responding to Requests for Proposals, making presentations of public finance capabilities, and other soliciting of business with issuer officials.

15.9.2 Definition of Municipal Finance Professional

Municipal finance professional is defined as an employee primarily engaged in municipal underwriting, trading or sales of municipal securities, financial advisory or consultant services for issuers in connection with the issuance of municipal securities, and research or investment advice with respect to municipal securities. It also includes anyone else primarily engaged in any other activities which involve communication, directly or indirectly, with public investors in municipal securities.

The definition also includes direct supervisors of municipal finance professionals including branch managers; the CEO or similarly situated official; and members of the executive or management committee or similarly situated official.

15.9.3 Definition of Non-MFP Executive Officer

Non-MFP Executive officer is defined as an employee who is NOT deemed a municipal finance professional and is in charge of one of F&C's principal business units, division or department or an employee who performs similar policy making functions for F&C. For purposes of this definition, a "principal" business unit, division or department will be defined as one that generates more than 5% of F&C's annual revenues.

For purposes of MSRB Rule G-37, Non-MFP Executive Officers are required to report their political contributions but their contributions would not result in a prohibition on municipal securities business.

15.9.4 Consultants

F&C will maintain written agreements with any consultants engaged on behalf of F&C as required by Rule G-38. Consultants include a person used by F&C to obtain or retain municipal securities business through direct or indirect communication by the person with an issuer on behalf of the dealer where communication is undertaken by the person in exchange for, or with the understanding of receiving, payment from F&C or any other person on behalf of F&C.

15.10 General Sales Practices and Uniform Practices

MSRB Rule G-17 - Conduct of Municipal Securities Business

Requirement. MSRB Rule G-17 requires F&C, in conducting its municipal securities

business, to deal fairly with all persons and to not engage in any deceptive, dishonest or unfair practices. Full disclosure of all material facts concerning a transaction must be made, at or before the sale of municipal securities to a customer. F&C must take the effort to ensure that clients are aware of any non-standard feature of a security they are about to purchase or sell.

Policy. It is F&C's policy to deal fairly with all persons. Deceptive, dishonest, or unfair practices are prohibited. F&C will disclose, at or before the sale of municipal securities to a customer, all material facts concerning the transaction (see MSRB G-47). Unless otherwise indicated in this chapter, the municipal securities business of F&C is subject to the same procedures as those set forth in previous chapters of this manual.

MSRB Rule G-18 - Execution of Transactions

Requirement. MSRB Rule G-18 requires F&C, when executing a transaction in municipal securities for or on behalf of a customer as agent, to make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

Policy. Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

Procedure. *All quotations must be bona fide quotations other than a nominal quotation which is an indication of the price given solely for information purposes.*

Quotations must represent the trader's best judgment of the fair market value taking into account factors such as F&C's inventory position and anticipated market movement. On joint accounts, quotations must not indicate more than one market in the same security.

MSRB Rule G-20 - Gifts and Gratuities

Requirement. MSRB Rule G-20 prohibits F&C from directly or indirectly, giving or permitting to be given anything or service of value, in excess of \$100 per year, to any person not employed by F&C, if such payments or services are in relation to the activities of the employer of the recipient.

Policy. F&C and its municipal securities professionals will maintain a record of any gift or gratuity which includes anything of value in excess of \$100 in relation to municipal securities activities. This does not include occasional gifts of meals or tickets to theatrical, sporting, and other entertainments, reminder advertising, and the sponsoring of legitimate business functions.

Procedure. Gifts cannot be so frequent or so expensive that unethical conduct may

become an issue. Employees are required to notify Compliance of any gifts in excess of \$100.

Compliance is responsible for maintaining F&C's Gift Recordkeeping Log which may be reviewed periodically by regulators.

The rule does not prohibit the occasional gifts of meals or tickets to theatrical, sporting, and other entertainments, the sponsoring of legitimate business functions that are recognized by the IRS as deductible expenses, or gifts of reminder advertising if such gifts, are not so frequent or so expensive as to raise a suggestion of conduct inconsistent with high standards of the municipal securities industry. F&C is also required to maintain a separate record of any gift or gratuity and all compensation agreements.

MSRB Rule G-21 - Advertising

"Advertisement." means any material (other than listings of offerings) published or designed for use in the public, including electronic, media, or any promotional literature designed for dissemination to the public, including any notice, circular, report, market letter, form letter, telemarketing script or reprint or excerpt of the foregoing. The term does not apply to preliminary official statements or official statements, but does apply to abstracts or summaries of official statements, offering circulars and other such similar documents prepared by brokers, dealers or municipal securities dealers.

Requirement. MSRB Rule G-21 prohibits F&C from publishing or cause to be published any advertisement concerning the facilities, services or skills with respect to F&C's municipal securities which is materially false or misleading.

Policy. Registered Representatives are prohibited from publishing or causing to be published any advertisement concerning the facilities. Services or skills with respect to F&C's municipal securities business which is materially false or misleading.

Procedure. *All advertising involving municipal securities will be approved by a designated municipal securities principal or general securities principal. General requirements included in the section of this manual titled "Advertising And Sales Literature" apply to municipal advertising.*

MSRB Rule G-21 includes specific requirements that apply to the advertising of municipal securities. Some specific requirements under this Rule include the following:

- ***Advertising that includes yield is subject to certain requirements regarding disclosing the basis of the yield***

- *Advertising regarding new issues are subject to certain disclosures regarding price or yield and must include an indication, if applicable, that securities shown may no longer be available at the time of publication or may be available from the syndicate at a price or yield different from that shown in the advertisement*
- *If bonds are subject to the alternative minimum tax, a statement is to be included in the advertisement to that effect*
- *Compliance should be consulted regarding questions about advertisements including municipal securities.*

MSRB Rule G-22 - Control Relationships

Requirement. MSRB Rule G-22 prohibits F&C from effecting discretionary trades in client accounts, without the client's specific authorization, in situations where F&C has a control relationship with respect to municipal security. Such situations may arise where F&C is controlled by, or controls an issuer of the security. In all cases, F&C must disclose any control relationships, in writing, to the client, at or before the completion of the transaction in question.

Policy. Where a control relationship exists, F&C will provide disclosure to any customer who effects a transaction in the subject municipal security prior to effecting the transaction.

Procedure. *A "control relationship" exists when F&C controls, or is controlled by, or is under common control with the issuer of a municipal security or a person (other than the issuer) who is obligated, directly or indirectly, with respect to debt service on the municipal security.*

Where a control relationship exists, F&C will provide disclosure to any customer who effects a transaction in the subject municipal security prior to effecting the transaction. Written disclosure will be provided before or at the time the transaction is confirmed to the customer. In the case of a new issue of municipal securities, disclosure will be made in the official statement. In the case of other transactions, disclosure will be included on the customer confirmation or by separate written disclosure included with the confirmation.

MSRB Rule G-24 Use of Non-Public Information

Requirement. MSRB Rule G-24 prohibits F&C from making use of any confidential, non-public information for financial gain.

Procedure. *F&C's insider trading policies and procedures include municipal securities information, therefore, no specific policies and procedures are included here.*

MSRB Rule G-25 - Improper Use of Assets

Requirement. MSRB Rule G25(b) prohibits F&C from guaranteeing a customer against loss. The rule also prohibits F&C from sharing, directly or indirectly, in the profits or

losses of any customer's account. An associated person may participate in a joint account in direct proportion to their financial contribution to the account.

Policy. F&C prohibits the sharing, directly or indirectly, in the profits or losses of any customer's account. An associated person may participate in a joint account in direct proportion to their financial contribution to the account.

MSRB Rule G-26 - Customer Account Transfers

Requirement. MSRB Rule G-26 requires the prompt transfer of a customer's account carried by the broker/dealer, upon written request from the customer.

Policy. F&C will promptly transfer a customer's account carried by the broker/dealer, upon written request from the customer

MSRB Rule G-28. Transactions with Employees and Partners of Other Municipal Securities Professionals

Requirement. MSRB Rule G-28 prohibits F&C from opening or maintaining an account in which transactions in municipal securities may be effected for a customer who is employed by, or the partner of, another broker, dealer or municipal securities dealer, or for or on behalf of the spouse or minor child of such a person unless prior written notice is given by the other broker/dealer. F&C must also send a duplicate confirmation of any municipal securities trades to the employing broker/dealer. F&C must also honor any specific written instructions in respect to the customer's transactions.

Policy. F&C prohibits F&C from opening or maintaining an account in which transactions in municipal securities may be effected for a customer who is employed by, or the partner of, another broker, dealer or municipal securities dealer, or for or on behalf of the spouse or minor child of such a person unless prior written notice is given by the other broker/dealer.

Procedure. *F&C must also send a duplicate confirmation of any municipal securities trades to the employing broker/dealer. F&C must also honor any specific written instructions in respect to the customer's transactions.*

F&C's new account form will request the customer's current employment. Should a customer indicate employment with another broker/dealer, F&C will obtain the employing broker/dealer's permission prior to opening the account. F&C will send duplicate confirmations of municipal trades to the employing broker/dealer and honor any special instructions regarding the account. F&C will retain evidence of the employing firm's approval of the account opening and any special written instructions. If special instructions are received, F&C will monitor activity in the applicable account to

ensure compliance with the instructions.

MSRB Rule G-29 - Availability of Board Rules

Requirement. MSRB Rule G-29 requires F&C to keep a copy of the MSRB rules in each office where municipal securities is conducted. F&C must also make the rules available to any customer, promptly upon request.

Policy. F&C will maintain a copy of the MSRB rules, via the access through the internet or a hard copy of the MSRB manual.

Procedure. *Clients will be provided with the website address or access to the manual that contains the MSRB rules should they make such a request. The Municipal Principal will confirm that each location that conducts a municipal securities business, as access to the MSRB rules via the internet or hard copy.*

MSRB Rule G-30. Prices and Commissions

Requirement. MSRB Rule G-30(a) - Principal Transactions - prohibits F&C from purchasing municipal securities for its own account from a customer or selling 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. F&C must take into consideration all relevant factors, including the best judgment of F&C 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 total dollar amount of the transactions and the expense involved in effecting the transaction. Also, F&C is entitled to a profit.

For a price to be “fair and reasonable” it must bear a reasonable relationship to the Prevailing Market Price (PMP) of the security.

Policy. F&C will not purchase municipal securities for its own account from a customer or selling 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.

Procedure. *The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:*

- *the best judgment of F&C 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*
- *bear a reasonable relationship to the PMP of the security*

- *total dollar amount of the transaction*
- *availability of the security*
- *the price or yield of the security*
- *the maturity of the security*
- *resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market*
- *the nature of F&C's business*
- *any other relevant facts at time of execution MSRB Rule G-30 also includes the factor that F&C is entitled to a profit on the transaction. Compliance will review mark-ups and mark downs on at least a spot-check basis. Transactions deemed excessive will be canceled and rebilled*

MSRB Rule G-30(b) - Agency Transactions

Requirement. MSRB Rule G-30(b) - Agency Transactions - prohibits F&C 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 F&C and the amount of any other compensation received or to be received by F&C in connection with the transaction. Dealers acting in an agency capacity must make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions, and may not purchase or sell municipal securities for a commission or service charge in excess of a fair and reasonable amount.

Policy. F&C will not purchase or sell 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 F&C and the amount of any other compensation received or to be received by F&C in connection with the transaction.

Procedure. *The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:*

- *the expense of executing and filling the customer's order*
- *the value of the services rendered by F&C*
- *a price for the customer that is fair and reasonable in relation to prevailing market conditions (not in excess of a fair and reasonable amount)*
- *the amount of any other compensation received by F&C in connection with the transaction*

- *factors considered in principal transactions*
- *any other relevant factors at the time of execution*

MSRB Rule G-30. Determination of the Prevailing Market Price (PMP)

Requirement: Dealers must use reasonable diligence to determine the Prevailing Market Price of a security, regardless if the input is intra-day or end of the day

Policy: The firm will endeavor to input the PMP of a security with the objective of determining what the PMP is at the time of trade

Procedure: *The firm will establish that the PMP of a municipal security will generally be presumptively established by referring to either the contemporaneous costs (in the case of a dealer sale to a customer) or contemporaneous proceeds (in the case of a dealer buy from a customer.). If we are unable to establish a PMP in the above manner, the firm can rely on:*

- 1) *Hierarchy of Pricing Factors (in the order listed)*
 - a. *Contemporaneous interdealer transactions*
 - b. *Contemporaneous dealer transactions with institutional accounts*
 - c. *If an actively traded security, contemporaneous quotations*
- 2) *Information regarding similar securities*
- 3) *Other economic models*

MSRB Rule G-39 - Telemarketing

Requirement. MSRB Rule G-39 prohibits F&C from making outbound call to person to solicit business at any other time than between 8:00 a.m. and 9:00 p.m. local time of the person's locations, unless the person has given them prior consent. F&C must also identify F&C, the caller' name and the telephone number at which the caller can be contacted promptly, clearly and in a conspicuous manner. F&C must also make it clear that the purpose of the call is to solicit municipal securities business. No one associated with F&C may make an outbound telephone call to any person for the purpose of soliciting the purchase of municipal securities or related services without disclosing promptly and in a clear and conspicuous manner to the called person the information stated above.

The prohibitions of this rule do not apply to calls made for the purpose of maintaining and servicing the accounts of existing customers of F&C. F&C must also maintain a "do-not-call" list containing the names of person who have requested that F&C not contact them again.

Policy. F&C will comply with FINRA and MSRB Telemarketing Rules.

MSRB Rule G-47 – Time of Trade Disclosure

Requirement. MSRB Rule G-47 states that no broker, dealer of 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. Information is considered to be material if there is a substantial likelihood that the information would be considered important or significant by a reasonable investor in making an investment decision. “Reasonably accessible to the market shall mean that the information is made available publicly through established industry sources. “Established industry sources” shall include the MSRB’s Electronic Municipal Market Access (EMMA) system, rating agency reports and other sources of information generally used by broker-dealers that effect transactions in municipal securities.

The supplementary material on MSRB Rule G-47 provides the following information regarding the manner and scope of the disclosure:

- a) The disclosure obligation includes a duty to give a customer a completed 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 in assessing the potential risks of the investment.
- b) The public availability of material information through EMMA, or other established industry sources, does not relieve broker-dealers of their obligation to make the required time of trade disclosures to a customer.
- c) A broker-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.

Please also refer to supplementary material on MSRB Rule G-47 regarding examples, though not exhaustive, that describe information that may be material in specific scenarios and require time of trade disclosures to a customer. Below are just a few of the provided examples:

- 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.
- b) **Credit risks and ratings.** The credit rating or lack thereof, credit rating changes, credit risk of the municipal security, and any underlying credit rating.
- c) **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.

- d) Callable securities. The fact that a municipal security may be redeemed prior to maturity in-whole, in-part or in extraordinary circumstances, including sinking fund calls and bonds subject to detachable call features.

Policy. F&C will disclose to the customer, orally or in writing, at or prior to the time of trade, all material information known about the municipal securities transaction, as well as material information about the security that is reasonably accessible to the market. Information is considered to be material if there is a substantial likelihood that the information would be considered important or significant by a reasonable investor in making an investment decision.

Procedure. RRs are required to disclose 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. Information is considered to be material if there is a substantial likelihood that the information would be considered important or significant by a reasonable investor in making an investment decision. This obligation is not relieved by merely directing the customer to EMMA or another established industry source for the information. The RR will also be responsible for documenting when and how the material information was disclosed to the client and retaining that information either through notes or written communication and disclosures provided to the client.

The Municipal Securities Principal will be responsible for supervising the municipal transaction and communicating any material information about the issue that they may be aware of at the time of the municipal transaction. However, it remains the RR's responsibility to ensure that any material information is disclosed to the customer at or prior to the transaction. Any questionable transaction will be discussed with the registered representative and, if necessary, the customer. The Municipal Securities Principal will have ultimate authority to accept, investigate, adjust, or refuse any transaction that is questionable based on all available information.

Specific Supervisory Responsibilities

Function: Municipal Securities
Principal assigned: Municipal Securities Principal
Title: Fixed Income Trader, COO & CCO
Location: Minneapolis, MN
Registrations: Series 7, 24, 53
Effective Date: 12/13/2016

RESPONSIBILITIES

- Ensure all required fees are paid to the MSRB in a timely manner
- Ensure all books and records are made and kept current in accordance with SEC Rules 17a-3 and 17a-4
- Review and ensure confirmations include all required information
- Ensure complete and accurate customer account information is obtained and maintained and that all recommendations are suitable based upon information available
- Ensure the member complies with all applicable rules, has an adequate supervisory system, and review and update Written Supervisory Procedures as needed
- Review and determine the merits of any customer complaints including the preparation and maintenance of adequate documentation regarding any action taken, and ensuring a MSRB investor brochure is delivered to the customer
- Ensure timely and accurate trade reporting
- Ensure no political contributions are made by the member or any associated person
- Ensure compliance with all relevant MSRB rules

16 Fixed Income

16.1 Government Securities

16.1.1 Government Securities Act Amendments of 1993

The Government Securities Act Amendments of 1993 gave FINRA the authority to apply certain sales practice rules to government securities. Another amendment to the Government Securities Act of 1986 established risk assessment rules for government securities broker/dealers. These amendments require broker/dealers to maintain and preserve records concerning the financial and securities activities of F&C's affiliates whose business activities could materially impact the financial or operation condition of F&C. The broker/dealer must also file reports of this information.

Policy. F&C acknowledges that its government securities business is subject to the same standards as its other business lines. All procedures in this manual will apply to government securities activities when applicable. F&C does not have any recordkeeping or reporting requirements under the amendments. F&C's CCO will monitor all government securities activity in the same manner as all other products.

16.1.2 Government Sponsored Enterprises Distributions & Treasury Securities

There are currently six Government Sponsored Enterprises (GSEs): the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), the Farm Credit System, the Federal Agricultural Mortgage Corporation (Farmer Mac) and the Student Loan Marketing Association (Sallie Mae). Some of these GSEs operate primarily as portfolio lenders and hold most of the assets they purchase or loans they make in their own portfolios (the Farm Credit System, the Federal Home Loan Bank System and Sallie Mae). Others operate primarily as guarantors of loans. Fannie Mae and Freddie Mac issue mortgage-backed securities that represent fractional ownership in an underlying pool of mortgages originated by private financial institutions. They guarantee some or all of the timely repayment of interest and principal to the holders of the securities.

The GSEs issue debt securities across a broad spectrum of maturities. Short-term securities include discount notes, Master notes, Residential Financial Securities, medium-term notes and Residential Financial Securities. Maturities can range from overnight to two years. Long-term securities include debentures and consolidated bonds. The GSEs also offer mortgage-backed securities (MBSs) which give purchasers a pro-rata ownership right in an underlying pool of mortgages. As such, the interest and principal payments that investors receive depends directly on the payments made by borrowers, including prepayment for mortgages.

MBSs are also offered in classes based on the anticipated prepayment risk of the underlying mortgages. These Collateralized Mortgage Obligations (CMOs) may range from short maturity class where they will be retired from early prepayments of mortgage

principal or a long maturity classes that will be retired later from the last prepayments or repayments of principal. A subset of the CMO, created in response to tax law changes, are Real Estate Mortgage Investment Conduits (REMICs). These securities are similar to CMOs, but are offered with terms designed to overcome some of the accounting and tax complexities inherent in CMOs.

Treasury Securities include Bills, Notes and Bonds. Bills have a maturity of one year or less, are issued at a discount and have a minimum purchase amount of \$1,000 face. Notes have a maturity of at least one year but no more than ten years with a minimum purchase amount of \$1,000 face. Bonds are offered in for 30 years with no call provision. Prior to 1985 callable bonds were also issued that are callable 5 years prior to maturity. After a fourth month=s notice, these bonds can be called on their first call date or on any semiannual interest payment date thereafter.

Most bills, notes and bonds are held by investors in a book-entry system through a bank or government securities dealer or in Treasury Direct. Some older bonds may also be in bearer form or registered form. Bearer form means the person or entity who holds the paper certificate owns it. Registered form means the paper certificate is owned by the person=s whose name is on the front of the certificate.

The Treasury department also has issues inflation-indexed notes and bonds. The interest payments and principal on these notes and bonds are tied to the Consumer Price Index.

Treasury notes and bonds can also trade under the STRIPS program or Separate Trading of Registered Interest and Principal Securities. STRIPS are obligations of the Treasury and are back by the full faith and credit of the United States, just as bills, notes and bonds. The Treasury itself does issue STRIPS, rather the STRIPS program lets holders separate them into individual interest and principal components and to hold and trades them in the book-entry system. STRIPS can only be held in book-entry through financial institutions or government securities brokers and dealers.

Treasury securities have little risk, other than the fact that their returns may not keep pace with inflation. GSE and Mortgage-backed securities are subject to Credit Risk, Prepayment Risk and Market Risk.

Credit risk is the risk that the investor will not have part or all of their principal returned by the maturity date because the borrower, the issuer or the credit enhancer defaulted on its financial obligations. However, GSE securities are backed by the full faith and credit of the United States.

Prepayment risk is the risk that the security will pay principal faster or slower than anticipated. Prepayments have a direct impact on the investment=s average life and

yield. Mortgage-backed securities are directly affected by the prepayment rate, which affects the average life and thus, the yield. Since prepayments are passed on to investors whenever they occur, the yield on the securities will be affected by changes in the rate of prepayment of the underlying mortgage loans. Generally, investors can expect an increase in prepayments when interest rates decline and a decline in prepayments as interest rates increase.

Market risk is the risk that the market price of the security will decrease. The market value of these securities can vary over time due to changing market conditions. The price of these securities is dependent on several factors, including prevailing interest rates, time to maturity and liquidity.

Requirement. On December 17, 1993, the Government Securities Act Amendments of 1993 was signed into law. The legislation amends certain provisions of the Securities Exchange Act of 1934 ("Securities Exchange Act") applicable to securities firms that act solely as government securities brokers and dealers and to banking institutions. The amendments vested additional regulatory authority in the Department of the Treasury ("Treasury"), the banking regulators, the Securities and Exchange Commission ("SEC"), and the National Association of Securities Dealers ("NASD").

Procedure. F&C will comply with all provisions of the Government Securities Act Amendments of 1993 and applicable portions of the Securities Exchange Act of 1934. F&C's CCO will review all GSE, Mortgage-back and Treasury securities activity by reviewing the trade blotter and/or order tickets. Evidence of such review will be maintained, as well as documentation of any issues and their resolution.

16.1.3 Government Sponsored Enterprise (GSE) Distributions

Trading Tickets

The government securities trader will complete a ticket for each order entered. Tickets will include the date and time the order was entered and when the order was executed.

Purchase of Non-Investment Grade Securities

A customer desiring to purchase a security that is not "investment grade" will be required to sign a disclosure letter indicating his/her understanding of the inherent risks.

No Assurance of Execution

There is no assurance that an order submitted to purchase a GSE security in distribution will be executed. At the time orders are entered, customers should be advised, if they are not already familiar with GSE distribution orders, that there is no assurance their order will be executed.

Selling Group

F&C will comply with the terms of the selling group agreement when it participates in a selling group.

16.1.4 Trading

Fair Prices

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

16.1.5 Mark-ups and Mark-downs

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- *the best judgment of F&C 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*
- *total dollar amount of the transaction*
- *availability of the security*
- *the price or yield of the security*
- *the maturity of the security*
- *resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market*
- *the nature of F&C's business*
- *any other relevant facts at time of execution*
- *FINRA's 5% mark-up/mark-down policy*

16.1.6 Commissions on Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- *the expense of executing and filling the customer's order*
- *the value of the services rendered by F&C*
- *the amount of any other compensation received by F&C in connection with the transaction*
- *factors considered in principal transactions*
- *any other relevant factors at the time of execution*

16.1.7 Inventory Positions

F&C has established guidelines for maintaining inventory positions. The Designated supervisor is responsible for monitoring positions daily to ensure limits are maintained. The inventory limits may be exceeded only with the prior approval of the Designated supervisor, Chief Executive Officer, or Chief Financial Officer.

16.1.8 Review Of Transactions

The Designated supervisor is responsible for daily review of transactions executed in government securities trading area(s).

16.1.9 Prohibited Activities

Inside Information

Traders are prohibited from acting on, passing on, or discussing any inside information. Any knowledge of such information must be brought to the attention of the designated supervisor and Compliance. No Firm proprietary account or employee account may effect a transaction based on material non-public information about the issuer of that security.

Financial Arrangements

Traders are prohibited from entering into financial arrangements with customers or issuers (i.e., sharing in profits or losses, sharing in commissions, rebating commissions, etc.).

Market Manipulation

No purchase or sales order shall be entered that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell.

Parking Securities

No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. An example would be a person engaged in an attempted takeover of a public company, and, to avoid reporting requirements, arranges for another party to purchase securities on their behalf. The second party agrees to later transfer or re-sell the securities to the person attempting the takeover.

Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

Adjusted Trading

Adjusted trading is a prohibited practice where a broker-dealer is involved in a swap transaction with a customer at prices not reasonably related to the current market value of the securities. An example is a customer sale to a broker-dealer at a price below market value and the simultaneous purchase and booking of a different security at a price above the current market value. The purpose of an adjusted trade is to assist one party in avoiding, disguising, or postponing losses.

The designated supervisor should review transactions to identify dual transactions for the

same customer or other entity, where execution prices are not reasonably related to the current market value.

Unless otherwise indicated in this chapter, the procedures set forth in Chapters 1 through 8 of this manual apply to the sales of government securities. Also refer to the following section

16.2 Collateralized Mortgage Obligations (CMOs)

Requirement. To oversee and enhance CMO sales practices, the NASD reminds members of their obligations under the Rules of Fair Practice when recommending CMOs to their customers. In light of the complexity and the varying risk characteristics of CMOs, under Article III, Sections 1 and 2 of the Rules of Fair Practice, members and their associated persons must be conversant in all of the characteristics of CMOs to assess adequately the suitability of CMOs for their customers. Moreover, they must ensure that their customers understand the characteristics and risks of CMOs. Further, adequate supervisory procedures must be in place to monitor CMO activity within each FINRA member firm.

Policy. F&C will take steps to ensure that customers to whom CMO's are recommended are made aware of the complexity and varying risk characteristics of CMO's.

Procedure. *CMOs are identified in this separate section because of certain special requirements under the rules. CMOs may be government, municipal, or corporate securities. Unless otherwise indicated in this chapter, the procedures set forth in Chapters 1 through 8 of this manual apply to the sales of CMOs.*

16.2.1 Suitability

Certain CMOs (such as inverse floaters, IOs, and POs) generally involve a higher degree of risk. It is thus important that the RR recommend such securities only to customers willing to risk loss of principal. A customer desiring to purchase such CMOs will be required to sign a disclosure letter indicating his/her understanding of the inherent risks.

16.2.2 Ginnie Mae REMICs

Ginnie Mae REMICs may be sold to retail investors with the exception of classes Ginnie Mae designates as "Increased Minimum Denomination" classes, which are subject to a \$100,000 minimum purchase denomination. Suitability must be considered when recommending Ginnie Mae REMICs to customers.

16.2.3 Disclosure Brochure

FINRA rules specify that purchasers of CMOs must receive certain disclosures regarding the features of CMOs. The FINRA has stated that the Bond Market Association (BMA) publication "An Investor's Guide To Collateralized Mortgage Obligations" (the "BMA brochure") satisfies those disclosure requirements. The BMA brochure will be provided to all purchasers of CMOs. Compliance will be responsible for identifying purchasers of CMOs who have not previously received the BMA brochure and will forward a current

copy to the customer. Compliance will retain a record of customers who have received the BMA brochure and the date it was provided.

16.2.4 Inverse Floaters, IOs, POs

Because of special risks associated with the purchase of inverse floaters, interest-only (IO), and principal-only (PO) securities, purchasers will be required to sign a special disclosure document explaining the risks associated with these investments and affirming the customer's willingness to assume higher risk. Compliance is responsible for identifying accounts purchasing these types of securities and requesting the required disclosure. Copies of the signed disclosures will be maintained in customer files or in a file established for the disclosure forms.

16.2.5 Communications with the Public

Bids

When bids are provided to customers in written form, the following disclosure should be included on the bid sheet or list: "Prices on bonds are obtained from various sources including pricing services which may use mathematical matrixes and others methods of estimating value. These prices are estimates only, are subject to change, and do not represent prices at which these bonds may actually be purchased or sold."

Correspondence

The designated supervisor responsible for reviewing correspondence regarding CMOs must ensure the correspondence is not misleading since CMOs may be different from other fixed-income securities in significant

ways. Correspondence should be reviewed with the following considerations:

- CMOs must not be compared to CDs, treasury bonds, or other securities with fixed interest rates and stated maturities.
- There should be no assurance that the CMO will prepay principal at the current assumed rate; timing may vary significantly.
- There should be no statement that current yield based on current prepayment assumptions is assured.
- Any guarantees regarding prepayment of principal should indicate the guarantee applies to par value only, and not to any premium paid.

Advertising and Sales Literature

Advertising and sales literature regarding CMOs require the FINRA's approval prior to publication. All CMO ads will be submitted to Compliance for review and submitted to the FINRA for approval prior to use. Some of the guidelines published by the FINRA regarding CMO advertisements include the following:

- CMOs may not be compared to other investments
- Final maturity dates must be prominently displayed
- A description of the initial issue tranche must be included
- A prepayment assumption must be used to calculate the yield if an anticipated yield is included

- The anticipated average life must be disclosed with a statement that such life will fluctuate depending on the level of current interest rates

Bloomberg and Other Financial Services

When providing Bloomberg or other comparable reports to customers regarding CMOs, the report should show, at minimum, PSAs at 200 basis points above and below current interest rate levels. Copies of Bloomberg or comparable reports provided to customers should be reviewed and retained by the designated supervisor.

16.2.6 Trading

Fair Prices

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

Mark-ups and Mark-downs

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- the best judgment of F&C 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
- total dollar amount of the transaction
- availability of the security
- the price or yield of the security
- the maturity of the security
- resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market
- the nature of F&C's business
- any other relevant facts at time of execution
- FINRA's 5% Mark-up/Mark-down Policy

Commissions on Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- the expense of executing and filling the customer's order
- the value of the services rendered by F&C
- the amount of any other compensation received by F&C in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

- FINRA's 5% Mark-up/Mark-down Policy

Inventory Positions

F&C has established guidelines for maintaining inventory positions. The Designated supervisor is responsible for monitoring positions daily to ensure limits are maintained. The inventory limits may be exceeded only with the prior approval of the Designated supervisor, Chief Executive Officer, or Chief Financial Officer.

16.2.7 Prohibited Activities

Inside Information

Traders are prohibited from acting on, passing on, or discussing any inside information. Any knowledge of such information must be brought to the attention of the designated supervisor and Compliance. No Firm proprietary account or employee account may effect a transaction based on material non-public information about the issuer of that security.

Financial Arrangements

Traders are prohibited from entering into financial arrangements with customers or issuers (i.e., sharing in profits or losses, sharing in commissions, rebating commissions, etc.).

Market Manipulation

No purchase or sales order shall be entered that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell.

Parking Securities

No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. An example would be a person engaged in an attempted takeover of a public company, and, to avoid reporting requirements, arranges for another party to purchase securities on their behalf. The second party agrees to later transfer or re-sell the securities to the person attempting the takeover.

Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

Adjusted Trading

Adjusted trading is a prohibited practice where a broker-dealer is involved in a swap transaction with a customer at prices not reasonably related to the current market value of the securities. An example is a customer sale to a broker-dealer at a price below market value and the simultaneous purchase and booking of a different security at a price

above the current market value. The purpose of an adjusted trade is to assist one party in avoiding, disguising, or postponing losses. The designated supervisor should review transactions to identify dual transactions for the same customer or other entity, where execution prices are not reasonably related to the current market value.

16.2.8 Review of Transactions

The Designated supervisor is responsible for daily review of transactions in CMOs.

16.2.9 Confirmations

The FINOP is responsible for establishing procedures for including the required disclosures on CMO confirmations. Rule 10b-10 requires that the confirmation include a statement that actual yield of the CMO may vary according to the rate at which the underlying receivables or other financial assets are prepaid, and a statement of the fact that information concerning the factors that affect yield (including, at a minimum, estimated yield, weighted average life, and the prepayment assumptions underlying yield) will be furnished upon the written request of the customer. MSRB Rule G-15(a)(i)(D)(2) includes a similar provision for municipal CMOs.

16.3 Corporate Fixed Income Trading

16.3.1 Corporate Bonds – TRACE Reporting

F&C accepts Corporate Bond transactions on a self-directed unsolicited basis. On January 23, 2002, the Securities and Exchange Commission (SEC) approved proposed rules requiring FINRA (formerly NASD) members to report over-the-counter (OTC) secondary market transactions in eligible fixed income securities to FINRA and subject certain transaction reports to dissemination. The Trade Reporting and Compliance Engine (TRACE) is FINRA-developed vehicle that facilitates this mandatory reporting and also provides increased price transparency on an immediate basis to market participants/investors in corporate bonds. The rules, referred to as the TRACE Rules are contained in the new Rule 6200 Series.

F&C has completed enrollment in the Trade Reporting and Compliance Engine (TRACE). F&C has executed a TRACE Participation Agreement with FINRA. F&C also has completed a TRACE Service Bureau/Executing Broker Supplement designating Pershing as their reporting agent. F&C has also subscribed to the TRACE Web Access system to allow F&C to monitor TRACE reports online.

F&C relies on the clearing firm, Pershing to complete the initial reporting requirements for TRACE Reporting.

Policy. *It is F&C's policy that it will conform to all rules and regulations of the TRACE system if it engages in corporate bond transactions.*

16.3.2 Fair Prices

Policy. Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

16.3.3 Mark-ups and Mark-downs.

Policy. The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- o the best judgment of F&C 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
- total dollar amount of the transaction
- availability of the security
- the price or yield of the security
- the maturity of the security
- resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market
- the nature of F&C's business
- any other relevant facts at time of execution

16.3.4 Customer Confirmations

Requirement. FINRA Rule 2232 requires that, at or before the completion of a transaction in municipal securities with or for the account of a customer, F&C will give or send to the customer a written confirmation of the transaction that complies with this rule.

Rule 2232 regarding Mark up or Mark down state that firm's must disclose the mark up/mark down on retail (i.e. non-institutional agency securities if:

- *The dealer also executes one or more offsetting principal transactions, on the same day as the customer transaction, in an aggregate trading size that meets or exceeds the size of the customer trade.*
- *The mark up/mark down disclosed on the confirmation must be determined from the PMP of the security*
- *Additionally the amended rule requires 2 additional items on retail customer confirmations for Corporate or Agency debt security trades:*
 - o *A reference and a hyperlink (if electronic confirmation) to a web page hosted by FINRA containing publicly available trading data for the specific security traded (<http://bondfacts.finra.org/<CUSIP>>)*
 - o *The Execution Time of the transaction, expressed to the second*

Policy. The CCO is responsible for establishing procedures regarding the preparation and transmission of customer confirmations, including information required under MSRB Rule

G-15.

Procedure. The confirmation must contain the identity of the parties to the transaction, a description of the securities, the trade date, the settlement date, yield to maturity or dollar price, the capacity in which F&C is acting, and any other specified information. Information on the time of execution and contra party identity in agency transactions must be furnished upon the client's written request, if not included on the confirmation.

The firm will review confirmations periodically to ensure, when required, the mark up or mark down is included on all applicable transactions.

16.3.5 Determination of the Prevailing Market Price (PMP)

Requirement: Dealers must use reasonable diligence to determine the Prevailing Market Price of a security, regardless if the input is intra-day or end of the day

Policy: The firm will endeavor to input the PMP of a security with the objective of determining what the PMP is at the time of trade

Procedure: The firm will establish that the PMP of an agency security will generally be presumptively established by referring to either the contemporaneous costs (in the case of a dealer sale to a customer) or contemporaneous proceeds (in the case of a dealer buy from a customer.). If we are unable to establish a PMP in the above manner, the firm can rely on:

- 1) *Hierarchy of Pricing Factors (in the order listed)*
 - a. *Contemporaneous interdealer transactions*
 - b. *Contemporaneous dealer transactions with institutional accounts*
 - c. *If an actively traded security, contemporaneous quotations*
- 2) *Information regarding similar securities*
- 3) *Other economic model*

16.3.6 Suitability

Policy. F&C will follow the same procedures set forth in the previous section of this manual regarding suitability of fixed income trades.

16.3.7 Parking

Requirement. Parking involved placing firm inventory into clients' accounts at month end in an effort to avoid the appearance of holding inventory at month end is usually done to circumvent the haircuts on such inventory in relation to SEC Rule 15c3-1 or the net capital rule and is prohibited.

Policy. No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. An example would be a person engaged in an attempted takeover of a public company, and, to avoid reporting requirements, arranges for another party to purchase securities on their behalf. The second party agrees to later transfer or re-sell the securities to the person attempting the takeover.

16.3.8 Adjusted Trading

Requirement. Adjusted trading or “overtrading” is generally a two-step transaction in which a security is sold at a price above the prevailing market price (usually to conceal a loss) and another security is purchased at a price above the true market value at the time of the purchase to offset the overpayment in the earlier sale transaction. This practice is prohibited.

Adjusted trading or "overtrading" is a prohibited practice that involves the sale of a security by a customer for a price above the prevailing market price and the simultaneous purchase of a different security at a price lower than the prevailing market price. The purpose of an adjusted trade usually is to assist a customer in avoiding, disguising, or postponing losses. Other scenarios of adjusted trading include:

- permitting a customer to sell a security at an inflated price and reselling the security to another customer at the inflated price
- interpositioning the broker-dealer between two customers where the broker-dealer acts as a conduit allowing the two customers to "swap" losing positions by paying an inflated price for each other's securities

Policy. All transactions must be executed at prices reasonably related to current market prices.

16.3.9 Churning

Excessive activity in a customer’s account is often referred to as churning. While there are no specific standards to measure churning, any trading in a clients’ account should be reasonable in light of their financial situation and investment objectives.

A representative is often motivated to churn an account in an attempt to generate commissions. Often, a churned account will also have unauthorized trades.

Policy. F&C prohibits the churning of any account. F&C’s CCO will monitor trade blotters and customer account records for excessive trading and review commission reports for each rep in an effort to detect possible churning. Any issues and their

resolution will be documented.

16.3.10 Repurchase and Reverse Repurchase Transactions

A repurchase agreement (REPO) is between a buyer and seller, usually of Government Securities, whereby the seller agrees to repurchase the securities at an agreed upon price and usually at a state time. The seller in a REPO has a short-term need for cash and the buyer, who has the reverse REPO, has excess funds to lend. A broker-dealer who holds securities that are subject to a repurchase agreement between the broker/dealer and the counterparty must obtain the repurchase agreement in writing, confirm in writing the specific securities are subject to the agreement, advise the counterparty that SIPC does not protect the securities and maintain possession and control of the securities subject to the agreement.

F&C will not participate in Repurchase or Reverse Repurchase Transactions.

16.3.11 Commissions on Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- the expense of executing and filling the customer's order
- the value of the services rendered by F&C
- the amount of any other compensation received by F&C in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

16.3.12 Inventory Positions

F&C has established guidelines for maintaining inventory positions. The Designated supervisor is responsible for monitoring positions daily to ensure limits are maintained. The inventory limits may be exceeded only with the prior approval of the Designated supervisor, Chief Executive Officer, or Chief Financial Officer.

16.3.13 Prohibited Activities

Inside Information

Traders are prohibited from acting on, passing on, or discussing any inside information regarding municipal issues, including confidential information regarding advance refunding. Any knowledge of such information must be brought to the attention of the designated supervisor and Compliance. No Firm proprietary account or employee account may enter a transaction based on material non-public information about the

issuer of that security.

Financial Arrangements

Traders are prohibited from entering into financial arrangements with customers or issuers (i.e., sharing in profits or losses, sharing in commissions, rebating commissions, etc.).

Market Manipulation

No purchase or sales order shall be entered that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell.

Frontrunning

No Firm proprietary or employee account may trade a security while in possession of material information about an imminent block-sized transaction in that security or a derivative security.

Self-preferencing

No firm may trade for its own account ahead of a customer's limit order at the same or better price.

Interpositioning

A trader may not interpose F&C or any account between a customer order and the best available market.

Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

Marking The Opening Or Close

Entering orders at the opening or close of the market for the purpose of affecting the price of securities is prohibited.

16.3.14 Review Of Transactions

The Designated supervisor is responsible for daily review of transactions executed in the corporate fixed income trading area(s).

16.3.15 Trading Ahead Of Research Reports/Recommendations

F&C may not establish an inventory position or add to (for a bullish report) or decrease (for a bearish report) F&C's inventory in a security because of its knowledge of the anticipated issuance of a research recommendation. This restriction also applies to derivative securities related to the underlying securities the subject of the research report.

Normal trading activity may continue when the trading report department is not aware of a pending research recommendation. If the trading department is aware of an upcoming recommendation on a specific security, trades in the subject security with customers or other broker–dealers are restricted to unsolicited orders only.

16.3.16 Bonds Borrowed and Loaned Transactions

SEC Rule 15c3-3 sets forth standard for the physical possession or control of securities of fully-paid or excess margin securities.

16.4 High Yield Debt Securities

High yield debt securities, also known as junk bonds, are speculative securities with lower credit ratings than investment grade bonds. Such bonds are often issued by companies without long track records of sales and earnings or by those with questionable credit strength. As these bonds are more volatile and risky they offer higher yields.

Policy. F&C's CCO will monitor all trading in high yield bonds using trade blotters, order tickets and customer account information, to ensure their compatibility with the purchasing client's investment objectives. Any issues and their resolution will be documented.

Procedure. *Unless otherwise indicated in this section, the supervisory procedures set forth in previous sections of this manual apply to the sales of high yield debt securities.*

Suitability

Because high yield debt securities generally involve a higher degree of risk, it is important that the RR recommend such securities only to customers willing to risk loss of principal. A RR must ensure a customer desiring to purchase such securities understands the inherent risks of high yield debt securities.

Underwriting and Investment Banking

The procedures outlined in the chapters "Corporate Securities Underwriting" and "Corporate Finance" are to be followed for the underwriting of high yield debt securities, as well as policies included in the sections titled "Chinese Wall Procedures" and "Insider Trading".

Research

The procedures outlined in the chapter titled "Research" apply to research on high yield

debt securities.

16.4.1 Policies related to Derivative Products

Derivative products, such as options, warrants and convertible securities, are those investments whose value relies on the underlying performance of another security. Such products can be very complex and F&C must take care when recommending such products to its clients. Clients must be made aware of pertinent information regarding these products.

F&C will not accept an order for derivative products unless the client has been provide, either verbally or in writing with specific information regarding the features of such products and F&C has determined that the client has the sophistication to understand such information. F&C's CCO, via review of trades blotters, order tickets and customer account information, will monitor the suitability of any trades in derivative products. Any issues and their resolution will be documented.

17 Penny Stocks

17.1 Introduction

The term “penny stock” generally refers to a security issued by a very small company that

trades at less than \$5 per share. Penny stocks are usually quoted over-the-counter. Due to the low amount of trade activity typically associated with penny stocks; it can be difficult to sell penny stock shares once you own them. Additionally, it may also be difficult to find quotations for certain penny stocks, which makes them difficult or even impossible to accurately price. For these reasons, penny stocks are generally considered speculative investments. **Investors in penny stocks need to be aware of the possibility that they could lose their entire investment when purchasing these products.**

17.2 Requirements in Selling Penny Stocks

Due to the high risk associated with penny stocks, congress has since prohibited broker-dealers from effecting transactions unless the broker-dealer has met the requirements for Section 15(g) of the Securities Exchange Act of 1934 (“Exchange Act”). The SEC rules provide, among other things, that a broker-dealer must (1) approve the customer for the specific penny stock transaction and receive from the customer a written agreement to the transaction; (2) furnish the customer the penny stock risk disclosure document; (4) disclose to the customer the amount of compensation the firm and its broker will receive for the trade; (5) the customer must receive a monthly account statement showing the market value of each penny stock held in the customer’s account.

17.3 OTC Traded Equities that are Exempt from the Penny Stock Rules

An equity that would typically fall under the penny stock definition may be categorized as exempt from the above rule, if the security meets one of the following requirements:

- The company has an average annual revenue of \$6,000,000 or more for the past three years; or
- Current net tangible assets of \$2,000,000 or more if the company has been in operation for more than 3 years; or
- Current net tangible assets of \$5,000,000 or more if the company has been in operation for less than 3 years.

RRs may proactively provide information to their Supervisor or compliance that a stock, traded on the OTC or Bulletin Boards, meets the exemption and therefore may be solicited. If an IE believes the stock meets an exemption, he/she must submit a Penny Stock Exemption Request (Found on the Firm website or in Compliance Alert 2012-05). Compliance will monitor [trades of](#) low priced securities on a daily basis and notate if the respective OTC or bulletin board security meets one of the above exemptions on the review.

17.4 Transactions that are not recommended (Unsolicited)

As highlighted in Section 15(g-1)(e) of the Exchange Act, transactions that are not

recommended by the broker or dealer are exempt from the penny stock guidelines highlighted above.

17.5 F&C Policy for Penny Stocks

Policy. Unless permitted by Compliance, F&C has prohibited the solicitation of penny stock transactions for all retail accounts. Brokers are only allowed to accept unsolicited trades from customers. All unsolicited trades must be accompanied with an “Unsolicited Trade Letter” before or immediately following the transaction can be completed.

Procedure. *CCO or the designated compliance officer will supervise all low priced equity transactions through the daily supervision blotter or electronic surveillance system. All equities deemed to be penny stocks will be paired with the submitted unsolicited letter. If an unsolicited letter is not submitted or a transaction is coded “solicited” the firm will follow up with the broker to ensure no errors have been made, and that the unsolicited letter is in route. If a determination is made that the transaction was actually solicited, the firm will promptly cancel the transaction.*

18 OTC Equity Trading and Market Making

Policy. In February of 2002, F&C adopted a separate compliance manual and written supervisory procedures for the Equity Trading Department.

Procedure. *CCO will meet with the Head Trader on an annual basis to review and if*

needed update the Equity Trading Manual.

Specific Supervisory Responsibilities

Function: Trading and OATS

Title: CCO or designee
Location: Minnetonka, MN
Registrations: Series 7, 24, 55, 63

RESPONSIBILITIES

- Monitor all mark-ups, mark-downs and commissions to ensure compliance with FINRA's 5% guideline.
- Monitor for and ensure best execution.
- Monitor for and ensure the proper disclosure of payment for order flow, whether by firm or through clearing agent.
- Ensure appropriate confirmations are sent to all customers for all transactions.
- Ensure order tickets are prepared for all trades and that they contain the required information.
- Ensure all short sales are done in accordance with the short sale rules.
- Ensure all OATS reporting requirements are met.

19 Complex Products

19.1 Introduction

Requirement. FINRA has issued numerous Notices to Members regarding firm's obligations to assess risks associated with products that raise specific investor protection concerns. Notice to Members (NTM) 12-03 provides guidance to firms about the supervision of complex products, which may include a security or investment strategy

with novel, complicated or intricate derivative-like features, such as structured notes, inverse or leveraged exchange-traded funds, hedge funds and securitized products, such as asset backed securities. The fact that a product is “complex” indicates that it presents an additional risk to retail investors because its complexity adds a further dimension to the investment decision beyond the fundamentals of market forces. This may be the case even though the complexity of some products may arise from features that seek to reduce the probability of investment losses in particular situations. The intricacies of complex products can impair the ability of registered representatives or their customers to understand how the product will perform in a variety of time periods and market environments, and can lead to inappropriate recommendations and sales.

Although FINRA guidance stops short of defining a “complex” product it does provide characteristics of many complex products. Moreover, some relatively simple products may also present significant risks to investors that warrant heightened scrutiny or supervision. Each firm is responsible for determining which products require enhanced compliance and supervisory procedures. Firms need to adapt procedures for vetting the products and supervising the sale and marketing of the products to retail investors.

19.2 Characteristics of Complex Products

Requirement. Any product with multiple features that affect its investment returns differently under various scenarios is potentially complex. This is particularly true if it would be unreasonable to expect an average retail investor to discern the existence of these features and understand the basic manner in which these features interact to produce an investment return. Identifying a complex product is an important step in the due diligence process.

Complex products often have:

- Multiple features that effect returns
- Embedded derivative components
- Different projected rates of return throughout lifetime of product
- Potential for loss if the asset goes down, but no gain if the asset goes back up
- A Loss Cliff
- Products that rely on relatively unknown exchanges

Examples of complex products include the following:

- Asset backed securities that are secured by a pool of collateral such as mortgages or payments from consumer credit cards where the creditworthiness of the underlying borrowers or the existence of prepayment risks, though critical to the evaluation of the product, may not be readily apparent for a retail investor. Similarly, unlisted REITs may present liquidity and valuation issues for a retail investor.

- Products that include an imbedded derivative component that may be difficult to understand, such as:
 - Structured notes with an imbedded derivative for which the reference asset is a constant maturity swap rate and information about the performance may not be readily available to investors.
 - “Steepner” notes typically offer a relatively high teaser coupon rate for the first year, after which they offer variable rates determined by the steepness of a yield curve.
 - “Reverse Convertible Notes” which the investor might incur a capital loss as a result of the fall in the value of the reference asset without being able to participate in an increase in its value. Also, the “knock in” or “knock out” features associated with these notes can have also have a disproportionate impact on the repayment of capital or on the payment of return.
- Products with contingencies in gains or losses, particularly those that depend upon multiple mechanisms, such as the simultaneous occurrence of several conditions across different asset classes.
- Investments tied to the performance of markets that may not be well understood by many investors such as exchange-traded products that offer retail investors exposure to stock market volatility.
- Products with principal protection that is conditional or partial, or that can be withdrawn by the product sponsor upon the occurrence of certain events.
- Product structures that can lead to performance that is significantly different from what an investor may expect, such as products with leveraged returns that are reset daily. Leveraged or inverse ETFs exemplify this feature.
- Products with complicated limits or formulas for the calculation of investor gains. For example, some structured notes with certain payout structures that track upside performance of a reference asset but only to a specified threshold.

The list is not exhaustive but the general characteristics should help identify products that are sufficiently complex to warrant enhanced oversight.

Policy. F&C’s Compliance Department will provide communication, training and, establish policies and procedures to identify “complex” products that may warrant enhanced compliance and supervision.

Procedure. *F&C’s compliance will establish written supervisory procedures to assist in identifying products sufficiently complex to warrant enhanced oversight. Supplemental communication and training will be provided in periodic Compliance Alerts. These will help the firm and employees to identify common characteristics of “complex” products as communicated in FINRA guidance and provide examples of products that may be deemed complex due to their features.*

19.3 Due Diligence

Requirement. Under FINRA's suitability rule, a firm or registered representative must perform a reasonable basis suitability determination before recommending a transaction or investment strategy involving a security. This is necessary to ensure that a transaction or investment strategy is suitable for at least some investors (as opposed to the customer-specific suitability determination, which is made on an investor-by-investor basis). To discharge the reasonable basis suitability obligation, a firm or registered representative must perform reasonable diligence to understand the nature of the transaction or investment strategy, as well as the potential risks and rewards. The diligence may vary depending on the complexity of and risks associated with the security or investment strategy and the familiarity of the firm or the registered representative with the security or strategy.

Reasonable diligence must provide the firm or registered representative "with an understanding of the potential risks and rewards associated with the recommended security or strategy." This should include an analysis of likely product performance in a wide range of normal and extreme market actions.

Firm's procedures should ensure registered representatives do not recommend a complex product to retail investors before it has been thoroughly vetted. These procedures should ensure the right questions are answered before a complex product is recommended. These questions should include:

- For whom is the product intended? Limited or general retail distribution?
- What is the nature of the product, transaction or investment strategy?
- What are the potential risks and rewards for investors?
- What assumptions does the product rely on to succeed and the scenarios where it would fail?
- What is the level of complexity of the product and how can it be made more transparent to the client?

Policy. F&C and its registered representatives will perform a reasonable basis suitability determination before recommending a transaction or investment strategy. This includes performing reasonable diligence to understand the nature of the transaction or investment strategy as well as the potential risks and rewards. The product must be thoroughly vetted and the diligence process will ensure the proper questions are answered, documented and approval evidenced.

Procedure. *F&C and its registered representatives will document a reasonable basis suitability determination on complex products prior to recommending the product, transaction or investment strategy. The due diligence process will include thoroughly vetting the product or strategy, documenting the process and evidencing approval.*

The Feltl compliance department will provide communication and training to the firm via Compliance Alerts to ensure complex products are identified, proper due diligence is conducted to meet the suitability rule and registered representatives are knowledgeable about all the intricate details of a product, transaction or investment strategy prior recommending to an investor.

The Chief Compliance Officer will retain the documentation of the due diligence process including answers to appropriate questions, management conversation notes and evidence of approval for complex products. It is imperative for all registered representatives to provided sufficient information to the Chief Compliance Officer to secure such approval prior to discussing any new or unapproved products with customers. Identified complex products must receive approval by the Due Diligence Committee prior to being offered to customers.

19.4 Training of Registered Representatives

Requirement. Registered Representatives who recommend complex products must understand features and risks associated with those products. For example, registered representatives who recommend structured products with embedded options and derivatives should possess a sophisticated understanding of the payoff structure, any limit on upside potential and the risks to investors that the payoff structure presents.

Ideally, a representative should be competent to develop a payoff diagram of a structured product to facilitate his or her analysis though knowledge of the payoff structure is not equivalent to an understanding of the risks associated with a product. The representative also should understand such features as the characteristics of the reference asset, any interrelationship between multiple reference assets, the likelihood that the complex product may be called by the issuer, and the extent and limitations of any principal protection.

The registered representative should be adequately trained to understand not only the manner in which a complex product is expected to perform in normal market conditions, but the risks associated with the product.

Policy. F&C will identify products that are sufficiently complex by their features, risks or as indicated by FINRA guidance and implement initial or additional training requirements for registered representatives as deemed necessary. The registered representatives will be required to complete the training before they will be authorized to solicit the product to customers.

Procedure. *The Chief Compliance Officer will identify products sufficiently complex due to features or risks associated with the product, whether new or existing products with the firm, and implement training requirements for the registered representatives.*

Registered Representatives will be required to participate and complete the training prior to any solicitation of these products to customers (effective May 31, 2013).

These products may include, but are not limited to:

- *Real Estate Investment Trusts (REITs) – Non-traded;*
- *Inversed, Leveraged and Inverse Leveraged ETFs and Notes;*
- *Variable Annuities;*
- *Unit Investment Trusts (UITs); and*
- *Other products as deemed by Compliance*

Training is administered and tracked by the compliance department. Transactions are monitored by supervision and/or compliance to ensure required training is completed by the registered representative prior to product training. Failure to complete training prior to initiating transactions with customers in the identified products may result in the cancellation of the transaction and/or a fine levied against the registered representative. It is important to note the firm no longer allows the solicitation of non-traditional ETFs and Notes (inverse, leveraged or inverse leveraged).

19.5 Suitability

Requirement. FINRA’s suitability rule requires that a firm or registered representative determine that a recommendation to purchase a security is suitable for the particular customer involved. The rule requires that firms and their registered representatives consider, among other factors, a customer’s investment experience and risk tolerance when recommending a securities transaction or investment strategy to the customer. In recommending complex products, firms are encouraged to adapt the approach mandated for options trading accounts, which requires that a registered representative have “a reasonable basis for believing, at the time of making the recommendation, that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the” complex product.

Firms should take reasonable steps to ensure that registered representatives who recommend “complex” products understand the risks and the limitations of the product. For example, some complex products provided various forms of principal protections and registered representatives should understand that the fact the protections will not alone ensure that the product is suitable for all customers. Firms must be able to provide a basis for allowing their sales force to recommend complex products to retail investors and it should be noted that approving an account for the purchase of complex products is not a substitute for a thorough suitability analysis.

The registered representative who intends to recommend a complex product should discuss with the retail customer the features of the product, how it is expected to perform

under different market conditions, the risks and the possible benefits, and the costs of the product. The discussion should include the scenarios in which the product may perform poorly and should be done in a manner reasonably likely to facilitate the customer's understanding. The registered representative should consider whether, after this discussion, the retail customer seems to understand the basic features of the product.

Policy. Feltl will ensure that registered representatives who recommend "complex" products understand the features, risks and limitations of the product. Registered representatives will sufficiently know their customers and consider the customer's investment objectives and risk tolerance, among other things, when recommending a "complex" product and that the customer has sufficient financial sophistication to understand the product. Certain mandatory discussion topics should be covered at the point of sale with an effort in relaying in simple terms the information necessary to educate the customer on the basic features along with the complexities of the product.

Procedure. *The Chief Compliance Officer will identify products sufficiently complex as warrant specific or additional training. Registered representatives will be required to complete training prior to soliciting the product to customers. Training will include ensuring the product is suitable for the individual client and the client has sufficient knowledge and financial sophistication to understand the product.*

Registered representatives will cover and document certain mandatory topics at the point of sale in simple terms sufficient to educate their client in understanding the basic features and complexities of the product. For example, the discussion may include:

- *Disclosure of risks*
- *Complete explanation of the product*
- *Explanation of how the product will perform in various market situations*
- *Explanation of all documents given to the client (record of all documents given to the client)*
- *Due to the complexity of the product, your review and understanding of the PPM/Brochure in a manner to facilitate understanding by the client.*

The transaction will be reviewed and approved for suitability, either prior to or promptly after the execution of the transaction, by the supervisor and/or principal. As mentioned in the previous section, the firm no longer allows the solicitation on non-traditional ETFs. The RRs should obtain a signed Unsolicited letter from the client along with providing them FINRA/SEC guidance about non-traditional ETFs prior to the facilitating the trade.

19.6 Supervision

Requirement. FINRA's guidance states the decision to recommend complex products to retail investors is one that a firm should make only after the firm has implemented heightened supervisory and compliance procedures. Firms should rigorously monitor the extent to which these procedures address the various investor protection concerns raised

by the recommendation of complex products to retail investors. Firms should monitor the sale of these products in a manner that is reasonably designed to ensure each product is recommended only to a customer who understands features of the product and from whom the product is suitable. This includes reviewing and identifying certain transactions or activity that may be viewed as unreasonable or problematic when it comes to complex products and taking appropriate action.

Policy. F&C has implemented supervisory and compliance procedures to cover the recommendation of complex products to retail investors reasonably designed to ensure each product is recommended only to a customer who understands the essential features of the product and for whom the product is suitable. F&C's supervisors and/or compliance department monitor transactions in complex products for possible transactions or activity that may be unreasonable or problematic and take appropriate action(s) to resolve any identified issues. Registered representatives have been trained in complex products and to alert the compliance department should situations occur that may be deemed unreasonable per FINRA guidance.

Procedure. *F&C's compliance department had provided training to the firm to identify "complex" products. Specific products have been identified by the compliance department and required training has been implemented before registered representatives can solicit the "complex" products to customers.*

Supervisors review and approve daily transaction blotters for suitability and have been trained in the heightened requirements for "complex" products. Supervisors and registered representatives will monitor for possible transactions or activity which may be viewed as unreasonable. Specifically, regarding the purchase of non-traditional ETFs, the supervisor and/or compliance will review to ensure an Unsolicited letter is on file for the customer and if not that it is on the way along with evidence they provided the customer with regulatory guidance regarding non-traditional ETFs.

Supervisors will include in the annual registered representative review the recommendation and sale of "complex" products. This includes a review of the products sold, a review if any required training was completed, a review of the specific transactions, a review of the clients and accounts, a review of client notes and a review of any possible problematic transactions, activity or scenarios.

Chief Compliance Officer or designee will review for compliance with both regulatory rules and firm policies and procedures to assure registered representative activities and transactions in regard to complex products is within the required guidelines.

19.7 Post Approval Review

Requirement. FINRA's guidance points to a process to periodically reassess complex products a firm offers to determine whether their performance and risk profile remain consistent with the manner in which the firm is selling them. Firms should consider developing procedures to monitor how the products performed after the firm approved them. Every product presents risks that may cause the product to perform differently than anticipated, particularly when market conditions have changed. Firms also should conduct periodic review to ensure that only associated person who authorized to recommend specific complex products to retail customers are doing so.

Policy. F&C will conduct a post approval review on products identified as sufficiently complex and higher risk to possibly materially alter the way the product was anticipated to perform when approved. Feltl will also conduct a periodic review to ensure only registered representatives that have completed proper training are soliciting complex products.

Procedure. *Chief Compliance Officer or designee will conduct a post review of any complex product identified as higher risk for how it is performing and whether that is in the manner in which it was anticipated. This review will be documented and escalated to management if the performance creates concerns for the firm or investors.*

In addition, the Chief Compliance Officer or designee will perform a periodic review to ensure only registered representatives who have completed proper training are soliciting the associated "complex" product. Any identified issues will be escalated for proper disciplinary action.

Specific Supervisory Responsibilities

Function:	Complex Products
Principal assigned:	CCO
Location:	Minneapolis, MN
Registrations:	4, 7, 24, 55, 63, 66, 87
Effective Date:	May 31, 2013

RESPONSIBILITIES

- Maintain a the due diligence file on complex products
- Provide education and training to RRs on complex products
- Oversee implementation of Suitability Rules for Branch Manager's on review of complex products purchased by RRs.
- Monitor a post review on complex product transactions to ensure that they are still suitable.

20 Corporate Securities UNDERWRITINGS/PRIVATE PLACEMENTS

20.1 Due Diligence

Requirement. FINRA Rule 2310 & 2111 requires F&C, in recommending transactions to customers, to have a reasonable belief that the recommendation is appropriate in light of the customer's specific situation. SEC Rule 10b-5 prohibits F&C and its associated persons from directly or indirectly employing any device, scheme or artifice in an attempt to defraud a customer. F&C is also prohibited from making any untrue statement of a material fact or to omit to state a material fact that if not disclosed, would mislead the customer. In order to avoid any misstatements or omissions F&C must make reasonable efforts to ensure the pertinent information about recommended securities is obtained and shared with applicable customers.

Procedure. *The CCO will monitor and review F&C's due diligence process for any offering in which F&C participates in an effort to ensure complete and accurate information is obtained and disclosed to investors. While the Director of Corporate Finance is responsible for establishing due diligence procedures for corporate securities underwritings, he/she can designate many of these duties to other employees. Records of the underwriting, including due diligence files, will be retained under the direction of the Director of Corporate Finance. The acting Director of Corporate Finance and F&C's Commitment Committee are responsible for accepting F&C's participation in an underwriting. F&C's CEO may override any decision of the Director or Commitment Committee.*

20.2 Filing with FINRA's Corporate Financing Department

Requirement. FINRA Conduct Rule 5190 requires F&C to file the information required in the rule if F&C will participate in any public offering of securities subject to the rule. These include the respective Regulation M required notifications to be filed through the FINRA Gateway portal. F&C may avoid filing requirements if they are met by the issuer, managing underwriter or another broker-dealer, but still must ensure they are filed and include the F& C name if they are part of the offering.

Policy.

- A. For each underwriting where F&C acts as the lead underwriter, the acting Director of Corporate Finance is ultimately responsible for the following items, but can designate many of these duties to other employees:
 - Determine whether filing with the Corporate Financing Department of the FINRA is required.
 - **If filing is required**, review the information to be filed before submission to the FINRA. In addition, copies the Regulation M required filings including the Regulation M Restricted Period Notification, Trading Notification and Deal

Status Notification (as applicable) should be retained. Also, Notice of Intent to Impose a Penalty Bid, Engage in a Syndicate Coverings Transaction and/or Enter a Stabilizing Bid notice should be filed and copies retained if applicable. ,

- Ensure the underwriting does not go forward unless a "no objection" letter is received from the FINRA, for those underwritings requiring filing with the FINRA.
- Prepare an underwriting checklist, assist in drafting of S-1, review materials filed with SEC, conduct due diligence calls with management, and participate in bring-down due diligence calls.
- Review due diligence information and create an electronic or paper file to evidence review.

B. For each underwriting where F&C acts as co-managing underwriter, the acting Director of Corporate Finance is ultimately responsible for the following items, but can designate many of these duties to other employees:

- Determine whether filing with the Corporate Financing Department of the FINRA is required. If these are being filed by the lead underwriter or another broker dealer, corporate finance should request a copy of any and all Regulation M notifications filed to ensure they were timely and include the name of the firm (F&C).
- Review materials filed with SEC, assist in drafting of S-1 as needed, and participate in bring-down due diligence calls.
- Review due diligence information and create an electronic or paper file to evidence review.
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20.3 Prospectus Delivery Requirements

Requirement. Under Section 5(b) (2) of the 33 ACT, F&C is prohibited from, directly or indirectly, sending through the mail or in interstate commerce any security for the purpose of sale or for delivery after sale, unless accompanied or preceded by a prospectus that meets the requirements of subsection (a) of section 10 the ACT.

Policy. In general, F&C is required to deliver a prospectus, when applicable, prior to or no later than confirmation of a trade in an offering made under prospectus.

Procedure. *Preliminary prospectuses will be made available to RRs when received by the underwriting department. These should be provided to customers submitting an indication of interest in the new issue. Each purchaser of the new issue will receive a final prospectus. The Corporate Finance Department is responsible for establishing procedures to ensure final prospectuses are sent to each purchaser at the same time as the purchase confirmation. A*

list of customers to whom prospectuses are sent, including the date sent, will be retained in the underwriting file for the new issue.

The prospectus delivery requirement may be satisfied by providing a preliminary prospectus with the purchase confirmation followed by a "term sheet" supplement to the prospectus and confirmation. The Corporate Finance Department is also responsible for notifying Operations that the notation "Prospectus Enclosed" or "Prospectus Under Separate Cover" is to be included on the customer's confirmation.

20.4 Indications of Interest

Policy. Indications of interest are accepted before the effective date of the underwriting. Indications of interest are not orders and do not become orders until the underwriting department confirms securities are available to satisfy indications; RRs are responsible for re-confirming the customer's purchase of the securities at the time they are effective and allocated by the Underwriting Department.

There is no assurance of an adequate quantity of securities to meet indications of interest.

20.5 Cooling-Off Period

Requirement. Regulation M (Reg. M) and its rules have replaced SEC Rules 10b-6 and 10b-7. Regulation M contains the rules governing activities of persons with an interest in a securities offering. These rules are aimed at preventing F&C if it is participating in an offering from manipulating the price of the offered security.

Rule 101 - generally prohibits underwriters, broker-dealers and other participants from purchasing the security being offered, or "subject security," during the "quiet period." The "quiet period" begins one or five business days (depending on the trading volume value of the security and the public float value of the issuer) before the offering's pricing and continues through the end of the offering.

There are several exceptions to the rule's prohibitions. For example, underwriters can continue to trade in actively-traded securities of larger issuers (securities with an average daily trading volume, or ADTV, value of \$1 million or more and whose issuers have a public float value of at least \$150 million). In addition, the following activities, among others, may be exempted from Rule 101, if they meet specified conditions:

- disseminating research reports; making unsolicited purchases;
- purchasing a group, or "basket" of 20 or more securities;
- exercising options, warrants, rights, and convertible securities;
- transactions that total less than 2% of the security's ADTV; and
- transactions in securities sold to "qualified institutional buyers."

Rule 102 - prohibits issuers, selling security holders, and their affiliated purchasers from bidding for or purchasing any subject security and certain other related securities during the quiet period.

Rule 103 - governs passive market making by broker-dealers participating in an offering of a Nasdaq security.

Rule 104 - imposes disclosure, recordkeeping, notification, and pricing conditions on underwriters that stabilize, or maintain, the price of a subject security at a desirable level to facilitate the offering.

Rule 105 - prevents manipulative short sales in anticipation of an offering by prohibiting the covering of short sales with securities obtained from an underwriter, broker, or dealer that is participating in the offering. Exceptions occur when the short sale occurs more than five (5) days before the underwriting event.

20.6 Purchases During the Post-Effective Period

Policy. Consistent with the requirements of Section 4(3) of the Securities Act of 1933, customers who purchase a new issue security in the secondary market after the underwriting will be provided prospectuses during the following periods after effective date:

- 40 days for a secondary offering (25 days for NASDAQ or exchange-listed securities)
- 90 days for an initial offering (25 days for NASDAQ or exchange-listed securities)

20.7 Private Offerings

Private offerings provide a mechanism for companies to raise capital without the cost and time of a fully-registered offering. Section 4(2) of the Securities Act of 1933 includes exemptions from the registration requirements of the Act. A "safe harbor" for issuers distributing securities in a private offering is included in Regulation D. Some of the elements of a private offering include:

- Sales to "accredited investors" and/or no more than 35 non-accredited investors
- Limiting the dollar amount of the offering
- No public advertising of the offering

Requirement. Under Section 4 (2) of the Securities Act of 1933, transactions by an issuer

not involving a public offering are exempt from the registrations requirements of the Act. This exemption is intended to permit an issuer to make specific or isolated sales to a particular person. The exemption will apply regardless of an issuer's subsequent decision to make a public offering, if at the time of the transaction in question, it is a private offering.

The section itself provides no guidance or criteria for determining what a private offering is. Determination of whether an offering is private relies on releases issued by the SEC and court cases. Factors that have been considered in the past in determining whether an offering is private include:

- Number of Offerees - not the number of purchasers. SEC at one time suggested 25 as the limit, but as little as one offeree could still be a "public" offering, based on other factors.
- Relationship of Offerees to Each Other - such as all offerees are related to each other and the issuer or persons with privileged information. Just being an employee of the issuer or an existing stockholder is not sufficient in itself.
- Size of Offering - the smaller the number of units, the less likely to be public, but total size of offering is not a key factor.
- Manner of Offering - offer made directly to offerees, no advertising, uses a broker-dealer.
- Offeree Qualifications - Sophisticated in investment matters, high net worth/income, access to pertinent information.
- Restriction on Resale of Securities - use of restrictive legends, purchasers informed of restrictions on right to sell or transfer securities.

Policy. When F&C participates in a private placement under Section 4(2) of the Securities Act of 1933, the CCO is responsible for ensuring that the necessary information is received to: 1) ensure that the proper exemption from registration is claimed; 2) that any offerees are qualified; 3) that they do not advertise the offering, and 4) that any securities sold include a proper restrictive legend. The CCO will rely on information received from the issuer and client new account information in making the above determinations.

20.7.1 Review of Potential Investors

Policy. Compliance is responsible for review and approval of potential investors to ensure:

- Potential accredited investors meet established guidelines
- Non-accredited investors do not exceed the maximum number allowed and, if there

are minimum standards for investment in a particular issue, those standard are met
Compliance will retain a written record of the review of purchasers.

20.7.2 Dollar Amount of Offering

Policy. The acting Director of Corporate Finance is responsible for ensuring the issue is not oversold relative to the dollar amount disclosed in the offering document compared to the limitations of the exemptions provided in the rules. The Director should consider any "integration" of similar offerings by the same issuer for substantially identical purposes for determining whether the issuer meets the dollar limitation under the exemption within a 12-month period of time.

Procedure. *The acting Director of Corporate Finance or his designees review for integration may include one of the following or another procedure determined adequate by the Director:*

- *Reviewing the issuer's financial statements for the past 12 months and/or contact directly with the issuer*
- *Obtaining a representation letter from the issuer that states that no other offerings will be distributed in a succeeding 6-month period that would cause the exemption to be lost.*

The Director will retain a written record of this review in the file for the private offering.

20.7.3 Advertising And Other Public Communications

Requirement. A private offering may not be advertised or otherwise be included in a broad dissemination of information about the offering.

The SEC developed Regulation D to remove the uncertainty of compliance with Section 4 (2) above. Regulation D provides exemptions from 33Act registration for securities offerings under three different rules, Rule 504, Rule 505 and Rule 506.

Rule 504 - applies to offers and sales to accredited investors by an issuer that is not: 1)a reporting company under the Securities Act of 1934; 2) an investment company; or 3)a development stage company with no specific business plan.

The aggregate offering price cannot be greater than \$1,000,000 during any 12-month period. The aggregate offering price is reduced by the aggregate offering price of all securities sold within the 12 months before the start of and during the offering of securities under this Rule or in violation of Section 5 of the 33 Act.

Rule 504 offerings can be made using general solicitations or advertising and can be offered or sold to an unlimited number of investors. The securities are not restricted. The buyers may resell the securities without registering them.

While the rule does not require the investor be provided with a disclosure document, most issuers provide a private placement memorandum in an effort to avoid the general anti-fraud provisions of the 33 Act. This memorandum should be free of any false or misleading statements or omissions.

Rule 504 was amended in 1999 to address fraudulent pump and dump schemes in microcap securities. The amendment limits the availability of the Rule 504 exemption and requires restrictions on the resale of securities and prohibits general solicitation unless certain conditions are met. They include: 1) transactions are registered under a state law exemption requiring public filing and delivery of disclosure documents before a sale and 2) the securities are issued under a state law exemption that permits general solicitation and general advertising provided that the sales are only made to accredited investors. If a state does not have a law requiring filing and delivery of disclosure documents before the sale, the securities must be registered in at least one state that does. The disclosure documents must be delivered to all purchasers, regardless of whether their state requires it.

Rule 505 - offers a similar exemption to that of Rule 504, except the aggregate offering price cannot be greater than \$5,000,000 during a 12-months period. A Rule 505 offering can be made to an unlimited amount of accredited investors and no more than 35 non-accredited buyers.

Rule 505 offerings must also satisfy certain information disclosure requirements which are addressed below under Rule 502. Purchasers of securities under Rule 505 are allowed to buy only for investment purposes and resales cannot be made without registering the securities. General solicitation and advertising are prohibited.

Rule 506 - is really a safe harbor for the Section 4(2) private offering exemption. Unlike Rule 505, there is no limit on how much capital can be raised. Sales can be made to an unlimited number of accredited investors and up to 35 non-accredited investors. If offers or sales are made to purchasers that are not accredited investors, each purchaser must have a degree of knowledge and experience in financial and business matters so as to be able to evaluate the risks and merits of the investment. The purchaser, however, need not actually possess such sophistication if the issuer reasonably believes immediately prior to making any sale that such purchaser comes within this description.

Offerings made under Rule 506 cannot use general solicitation or advertising. Resale restrictions and disclosure requirements also apply.

Rule 501 - provides definitions of terms used in Regulations D, including:

Accredited Investor - means any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following

categories, at the time of the sale of the securities to that person:

- (1) Any bank;
- (2) Any private business development company;
- (3) Any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- (4) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;
- (5) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds \$1,000,000, not including the value of the natural person's primary residence and taking in account any deduction in net worth from any amount of indebtedness secured by the primary residence in excess of its value;
- (6) Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- (7) Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person; and
- (8) Any entity in which all of the equity owners are accredited investors.

Aggregate Offering Price - means the sum of all cash, services, property, notes, cancellation of debt, or other consideration to be received by an issuer for issuance of its securities. Where securities are being offered for both cash and non-cash consideration, the aggregate offering price shall be based on the price at which the securities are offered for cash. Any portion of the aggregate offering price attributable to cash received in a foreign currency shall be translated into United States currency at the currency exchange rate in effect at a reasonable time prior to or on the date of the sale of the securities. If securities are not offered for cash, the aggregate offering price shall be based on the value of the consideration as established by bona fide sales of that consideration made within a reasonable time, or, in the absence of sales, on the fair value as determined by an accepted standard. Such valuations of non-cash consideration must be reasonable at the time made.

Calculation of Number of Purchasers - For purposes of calculating the number of purchasers the following shall apply:

(1) The following purchasers shall be excluded:

(i) Any relative, spouse or relative of the spouse of a purchaser who has the same principal residence as the purchaser;

(ii) Any trust or estate in which a purchaser and any of the persons related to him collectively have more than 50 percent of the beneficial interest (excluding contingent interests);

(iii) Any corporation or other organization of which a purchaser and any of the persons related to him collectively are beneficial owners of more than 50 percent of the equity securities (excluding directors' qualifying shares) or equity interests; and

(iv) Any accredited investor.

(2) A corporation, partnership or other entity shall be counted as one purchaser. If, however, that entity is organized for the specific purpose of acquiring the securities offered and is not an accredited investor under this section, then each beneficial owner of equity securities or equity interests in the entity shall count as a separate purchaser for all provisions of Regulation D, except to the extent provided in paragraph (1) of this section.

(3) A non-contributory employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974 shall be counted as one purchaser where the trustee makes all investment decisions for the plan.

20.7.4 FINRA Filing Requirements Regarding Private Placements

Requirement. FINRA Rule 5123 requires each member firm that sells an issuer's securities in a private placement, to file with FINRA a copy of any private placement memorandum, term sheet or other offering document the firm used within 15 calendar days of the date of the sale, or indicate that it did not use any such offering documents. Firms must file the required offering documents electronically with FINRA Firm Gateway.

In addition, firms must submit filings regarding member firm private offerings (MPOs), as required by FINRA Rule 5122 through the Firm Gateway.

Policy. F&C will comply with FINRA Rule 5123 and 5122 filing requirements on any private placement offerings that the firm conducts on a timely basis. The Corporate Finance department and compliance will coordinate the filings to ensure they are accurate, complete and processed on a timely basis through FINRA Gateway.

Procedure. F&C will file the required documentation under FINRA Rule 5123 and 5122 through the FINRA Firm Gateway portal. This will include a copy of the private placement memorandum, term sheet or other offering document the firm used within 15

calendar days of the date of sale. Corporate Finance will be responsible for providing the respective documents to compliance and compliance will be responsible for filing them with FINRA on a timely basis. Documentation of filing will also be retained.

20.8 Reg D Offerings

Requirement. The fact that a BD's customers may be sophisticated and knowledgeable does not obviate the duty to investigate. Moreover, in Regulation D offerings the SEC advises issuers to provide the same information to accredited investors as they are required to provide to non-accredited investors, in view of the antifraud provisions.

Rule 502 contains the general conditions for Regulation D offerings including:

Integration - All sales that are part of a Reg D offering must satisfy the requirements of Reg D. There is a safe harbor that states that offerings six months before and six months after a Reg D offering will not be integrated with the Reg D offering. To qualify for the safe harbor within the six month periods for securities of the same or similar class as those in the Reg D offering. This is meant to prevent an issuer from attempting to circumvent the dollar limits or non-accredited investor limits set under Reg D by offering the same securities, but in separate offerings.

Rule 502 also addresses the disclosure requirements that apply to offerings under Rules 505 and 506. All non-accredited investors must be provided with a brief description, in writing, of any material information about the offering that the issuer provides to accredited investors. Issuers must also inform investors of any resale limitations. If the issuer is a public company, they must also provide their annual report, Form 10-K, Form 10-KSB (or a report that contains the information provided in such forms or reports) and any other information provide under the 34 Act, including a brief description of the securities being offered, the use of the proceeds from the offering and any material changes to the issuer's affairs that are not disclosed in the other documents that are furnished. For non-reporting issuers, certain financial information must be disclosed to potential purchasers prior to any sales.

Rule 502 places limits on the manner in which a Reg D offering can be made. Rule 505 and 506 offerings cannot be made through any form of general solicitation or general advertising. General solicitation and advertising includes: 1) any advertisement, article, notice or other communication published in a newspaper, magazine or similar media or broadcast over television or radio; and 2) any seminar or meeting where the attendees are invited by any general solicitation or general advertising.

Rule 502 also sets forth the limitations on resale of Reg D offerings. The issuer must make

a reasonable effort to ensure that the purchaser of securities under a Reg D offering is not underwriters. The issuer must; 1) make a reasonable effort to determine that the purchaser is acquiring the securities for himself; 2) disclose in writing to each purchaser that the securities have not been registered and cannot be resold unless they are registered; and 3) place a legend on the stock certificate that states the securities have not been registered.

Rule 503 under Reg D requires an issuer to file five copies of Form D with the SEC within 15 days after the first sale of securities made under Rule 504, 505 or 506. If sales are made under Rule 505, the issuer must also file an undertaking to furnish the SEC, upon written request, the information furnished by the issuer to any non-accredited purchaser.

***Procedure.** The CCO will monitor all securities sales made under Regulation D to ensure that F&C works closely with the issuer in providing proper disclosure documents to purchasers, in limiting the number of accredited investors and in meeting any other requirements under Reg D. It is F&C's policy in a private offering to only introduce client transactions to accredited investors. F&C will obtain a copy of Form D for all Reg D offerings in which they participate. They will also obtain adequate purchaser information to assist in determining that the requirements of a Reg D offering are met. Furthermore, the CCO will be responsible for ensuring that all documents have been received and all SEC filings have been made and maintain documentation of the same in F&C's books and records.*

20.9 Regulation A Offerings

Requirement. Regulation A provides another exemption to the registration of securities under the 33 Act. The offering is limited to \$5,000,000 in a 12-month period. Issuers must provide the SEC with a Form 1-A. This exemption is rarely used.

Policy. For a Regulation A offering, a limited registration statement will be filed with the SEC.

***Procedure.** Key considerations for the Director of Corporate Finance include:*

- *Whether the issuer is disqualified from distributions under Regulation A*
- *Dollar limitations of the offering*

Offers cannot be made before the filing of the registration statement and sales may not be effected until the offering statement is qualified

20.9.1 Dollar Limitation of Offering

***Procedure.** The Director of Corporate Finance is responsible for ensuring the issue is not oversold relative to the dollar amount disclosed in the offering document compared to the limitations provided in the rules. The Director should consider any "integration" of similar offerings by the same issuer for substantially identical purposes for determining*

whether the issuer meets the dollar limitation under the exemption within a 12-month period of time. The acting Director's review for integration may include one of the following or another procedure determined adequate by the Director:

- *Reviewing the issuer's financial statements for the past 12 months and/or contact directly with the issuer*
- *Obtaining a representation letter from the issuer that states that no other offerings will be distributed in a succeeding 6-month period that would cause the exemption to be lost*

The Director will retain a written record of this review in the offering's underwriting file.

20.9.2 Initiation of Offers and Sales

Procedure. *The acting Director of Corporate Finance is responsible for notifying Firm personnel when a Regulation A offering is available and when the registration statement is qualified to permit sales. A written record of these notices will be retained in a file for the offering.*

20.10 Best Efforts Underwritings

Requirement. Under a Best Efforts arrangement, F&C, acting as agent, would agree to do their best to sell an issue of securities to the public. Instead of buying the securities into their inventory, F&C has an option to buy and an authority to sell such securities. F&C would only buy an amount of the securities to cover sales to its clients.

Policy. Under SEC Rule 10b-9, F&C is prohibited from representing that a security is being sold on an all-or-none or a part-or-none basis if the offering is not sold in bona-fide transactions. A bona-fide transaction would not include sales made solely to meet a contingency under the offering, where the purchaser does not intend to purchase the securities as an investment.

Policy. F&C must make prompt refunds to all purchasers if the contingency under an all-or-none or a part-or-none offering is not met by the termination date of the offering and the offering period is not extended. The offering period may be extended, if, prior to the original expiration date, all purchasers are notified of the extension. The purchasers must also reconfirm their intent to make the purchase, in writing, prior to or on the original termination date. If F&C does not receive the purchaser's written confirmation prior to or on the original termination date, the purchaser's funds must be promptly refunded to the purchaser.

F&C may rely on the offering memorandum to provide notice to potential purchasers of

the possibility of the extension of the offering period. If this possibility is addressed in the offering memorandum, F&C may forego the reconfirmation process, until such time as the offering period is extended beyond that stated in the offering memorandum.

Any other changes to the terms of an offering, such as the offering price, the minimum contingency, the use of the offering proceeds, may not be made under the reconfirmation process. Such changes require the termination of the offering and the prompt refunding of funds received from potential purchaser.

Procedure. *The CCO is responsible for ensuring F&C's selling efforts comply with the stated expiration dates in the offering memorandum. If the offering is not closed prior to the final expiration date, the CCO is responsible for ensuring all conditions related to extending the expiration date are met prior to allowing or approving further sales. The CCO will review all purchasers to ensure they are bona-fide purchasers and ensure any necessary reconfirmations or refunds are made.*

The CCO is responsible for ensuring no changes are allowed to the terms of an offering, beyond the extension of the expiration date, without the proper filing of amendments or a new registration statement and that such amended offerings are treated as new offerings.

Requirement. SEC Rule 15c2-B4 applies to all best efforts distributions and regulates the final disposition of customer funds received during this type of securities offering. Under the rule, if F&C participates in a contingent offering (e.g., all-or-none or minimum/maximum) they must promptly deposit investors' funds received into a separate bank account, as agent or trustee for those investors, or promptly transmit these funds to a bank escrow agent, pending occurrence of the contingency.

Policy. If the contingency does not occur, F&C, if it is an underwriting member, must promptly refund all customer monies. Since F&C is subject to a \$25,000 minimum requirement or higher it may, if not affiliated with the issuer, use either a separate firm bank escrow account or a separate bank trustee account.

Procedure. *When engaged in a contingent underwriting, F&C must deposit funds in escrow by:*

- *noon of the next business day after receipt by F&C; or,*
- *noon of the second business day after receipt of the customer's subscription form by the issuer.*

To comply with the rule, F&C must grant the escrow agent authority to decide if the contingency has been satisfied before releasing any funds to the issuer or returning funds to investors. However, under no circumstances may the escrow agent forward funds to the issuer until the contingency has been met. Such a pre-contingency payout could

subject F&C to a fine and would be a violation under the rules. Only cleared funds will be included in determining if escrow can be broken.

In establishing an escrow account, F&C will review FINRA Notice to Members 87-61, which offers suggested provisions and language for escrow account agreements. Key areas to address include: the offering for which the account is established; how long the funds must be held in escrow (the termination date); how many units must be sold before funds can be released from escrow (the contingency); that the escrow agent is responsible for returning funds if the contingency is not met; that funds may not be released to F&C; that the bank has agreed to be the escrow agent; that funds held in the escrow account will only be invested as permissible under the rule, etc.

The funds deposited in the escrow account may be invested in either short-term obligations of the US Government or US Government Backed Securities, short-term bank certificates of deposits, time deposits, or bank accounts, including bank money markets. The funds cannot be invested in any instrument whose maturity is past the date the contingency is expected to be met, unless such investments can be readily sold or converted to cash when necessary. Some investments specifically prohibited for the investment of funds held in escrow include: money-market funds; corporate debt or equity securities; repurchase agreements; banker's acceptances; commercial paper; and municipal securities. F&C must disclose who stands to benefit from any interest earned on funds while held in an escrow account.

Procedure. The CCO will monitor F&C's Cash Receipt and Disbursement Blotter or similar record to ensure that funds received for the purchase of securities are promptly returned to the investor for proper delivery directly to the issuer of securities.

The CCO is responsible for ensuring an adequate escrow account is established and administered and the escrow is broken only upon satisfaction of the offering contingency. In accomplishing this review, the CCO will obtain and review copies of the escrow agreement and bank account statements (if provided by the bank handling the escrow). The CCO will also communicate daily with an agent of the bank to confirm when funds clear. If an affiliate establishes the escrow account or if F&C acts only in the capacity of a distributor on a contingent offering, the CCO will obtain copies of both the escrow agreement and bank statements to assure proper escrowing of funds and that the contingency was met prior to breaking escrow, or, if necessary, investor funds were promptly returned.

The CCO will ensure, when establishing an escrow account and during its entire existence, that only allowable investments are made with the account's funds. The CCO will also ensure that the offering memorandum includes adequate disclosure of what investments

will be made, and who is entitled to any interest earned on such investment.

20.11 Intrastate Offerings

Requirement. Transactions in securities that are offered and sold only to persons residing with the same state are exempt from the registration requirements of the 33 Act under Section 3(a)(11). Rule 147 sets forth standards for determining what types of intrastate transactions qualify for the exemption.

The issuer must be a resident of and doing business in the same state within which the offers and sales are made. 80% of the issuer's revenues must be derived in the state and 80% of its assets must be located in the state. F&C must also use 80% of its net proceeds of the sale for the operation of a business, the purchase of property or the performance of services. The issuer's principal office must also be located in the state in which securities are offered.

Policy. If F&C participates in an intrastate offering, F&C will follow similar compliance procedures as those under Regulation D.

20.12 Public Offerings

Public offerings of securities require registration of the securities with the SEC and states.

20.13 Rule 144 Transactions

Requirement. Rule 144 provides factors for determining whether or not a purchaser of restricted securities will be deemed an underwriter. The rationale behind this rule is to ensure that unregistered securities are not widely distributed to the general public.

Policy. To rely on Rule 144 and to prevent being deemed an underwriter a person selling restricted stock must meet the following conditions:

- The availability of adequate and current public information about the issuer, i.e. the issuer is current in all public reporting or if not a reporting company, the same information required of a reporting company is available to the public.
- The person acquired the securities from the issuer at least one year prior to the resale. The date of original acquisition will vary depending on the circumstances surrounding the acquisition itself.
- Limits on the amount of securities sold are based on whether the seller is a non-affiliate or affiliate of the issuer. For a non-affiliate, during any three month period,

the amount that can be sold is limited to one percent of the issuer's outstanding class of the securities or the average weekly reported trading volume in the security during the four calendar weeks that precede the filing of notice to sell. An affiliate is subject to the same limitations.

- The sales of restricted securities must take place in brokers' transactions, i.e. agent transactions where the broker receives no more than a customary broker's fee and the broker does not solicit investors' order to buy the securities in anticipation of the sale made under Rule 144.
- SEC filing requirements must be met if during any three-month period, the amount of securities that will be sold under Rule 144 exceeds 500 shares or has an aggregate sale price in excess of \$10,000. Form 144 must be completed in triplicate and filed with the SEC at the time an order is placed with the broker.

A traditional Rule 144 sale will require the following items; 1) an Issuer's letter that will attest that all reported or required information about the issuer is current and accurate; 2) the Broker's letter that attests that the transactions were not solicited, etc., 3) completion of the required SEC form, and 4) NFS Control/Restricted Securities Questionnaire for Non-Shell Companies.

20.13.1 Regulation S Underwritings

Regulation S provides two safe harbors from registration requirements in the U.S. for offers and sales of securities outside the U.S. The following restrictions apply to sales under Regulation S:

- Purchasers may not be a U.S. Citizen or U.S. company
- Securities sold under Regulation S are classified as "restricted securities" within the meaning of Rule 144
- Securities may not be re-sold to U.S. persons (unless they are registered or are subject to an exemption) for a period of two years after initial purchase relying on Regulation S
- Purchasers must agree not to engage in hedging transactions
- Promissory notes may not be used to pay for securities

20.13.2 Purchaser Questionnaires

Each purchaser of securities under Regulation S will be required to complete F&C's Regulation S Purchaser Questionnaire. Compliance is responsible for approving the Questionnaires before the purchase of shares.

20.13.3 Monitor of Purchasers

Compliance is responsible for establishing procedures to monitor Firm accounts for customers who purchase securities under Regulation S to ensure the securities are not sold through F&C within the restricted period.

***Procedure.** F&C's CCO will review all Rule 144 sales to ensure the necessary documents are obtained and necessary SEC filings are made.*

20.14 Free-Riding & Withholding

Policy. The free-riding and withholding interpretation was created to ensure firms make a bona fide public distribution of new issue securities that trade hot in the secondary market. Hot issues are defined by the Interpretation as securities of a public offering that trade at a premium in the secondary market whenever such trading commences.

The interpretation prohibits certain persons, including person registered with a broker-dealer from purchasing hot new issues. There may also be restrictions on sales of hot new issues to persons related to or support by a registered representative. This includes parents, mother or father -in-laws, husband, wife, brother or sister, brother or sister-in-law, son or daughter-in-law and children and anyone who is supported, directly or indirectly, to a material extent by the registered representative.

***Procedure.** F&C prohibits its associated persons and associated persons from purchasing any new issue securities that would be subject to the free-riding and withholding interpretation. F&C's FinOps will monitor all activity of its associated persons and associated persons and any applicable related accounts. To monitor for such activity, F&C requires pre-approval notice from its associated persons to maintain brokerage accounts away from F&C and an annual attestation from representatives and associated persons confirming F&C has been properly advised of accounts maintained at other brokerage firms. Presently F&C does request duplicate confirmations and statements for such accounts from both associated persons and owners of F&C. Anyone found to be in violation of the free-riding and withholding interpretation will be subject to disciplinary actions, including possible termination.*

20.15 Self- Underwriting

Requirement. FINRA Conduct Rule 5110 sets forth the requirements for a firm that intends to publicly offer its own securities or those of an affiliate.

Policy. F&C will not participate in any offerings of securities in itself or an affiliate.

Specific Supervisory Responsibilities

Function:	Underwritings/Private Placements
Principal Assigned:	Acting Director of Corporate Finance & CCO
Location:	Minneapolis, MN
Registrations:	Series 4, 7, 24, 55, 63, 66, 87
Effective Date:	July 16, 2014

RESPONSIBILITIES

- Monitor all best efforts underwritings to ensure compliance with Rules 10b-9 and 15c2-4.
- Monitor all best efforts underwritings to ensure the prompt handling of investors' funds and the proper maintenance of the escrow account.
- Monitor any firm trading during the quiet period in regard to Reg M.
- Ensure F&C and its reps independently review and verify a third party prepared due diligence package or conduct its own proper due diligence prior to introducing client transactions to investors.
- Ensure that certain background checks are conducted on certain executive officers and board members by F&C or third party pursuant to their independent due diligence review.
- Ensure the delivery of a prospectus or other disclosure documents when applicable.
- Ensure any offerings done pursuant to an exemption under Section 4(2) of the 33 Act comply with the requirements of this section.
- Ensure any offerings done pursuant to Regulation D of the 33 Act comply with the requirements of this section's rules.
- Ensure any Regulation A or Intrastate offerings comply with the requirements of these sections.
- Monitor all Rule 144 transactions to ensure all applicable documents are obtained

and work with F&C's clearing firm to ensure any restrictive legends are removed to allow the sale of the securities.

- Monitor all securities activities of registered and associated persons, and related accounts, to ensure compliance with firm policies regarding free-riding and withholding.

21 Corporate Finance

Policy. This section identifies supervisory policies and procedures relating to F&C's investment banking activities with corporate issuers. Although the term "corporate" is used in this section, the term will be understood to include partnerships and other entities that are the subject of investment banking engagements.

21.1 Engagements

The CEO, or acting Director of Corporate Finance is responsible for accepting F&C's engagement to act as investment banker on behalf of a customer. F&C's CEO may override any decision of the Director.

21.2 Confidentiality

Because corporate finance personnel may obtain material, non-public information in the normal course of investment banking activities, maintaining the confidentiality of corporate finance projects is essential. The chapter titled "Insider Trading" outlines F&C's policies regarding inside information. Within that chapter, the section titled "Chinese Wall Procedures" outlines the policies and procedures for maintaining confidentiality.

21.3 Personal Trading of Corporate Finance Personnel

The following policies apply to the personal accounts of corporate finance personnel:

- Corporate finance personnel are required annually to certify their knowledge and understanding of F&C's Chinese Wall Procedures and Firm Policy Regarding Insider Trading.
- All accounts in which the employee has a personal interest or has control over the account must be maintained at F&C. This includes accounts for the employee's spouse and minor children, whether or not the employee controls the account.
- Orders require the prior approval of the acting Director of Corporate Finance or Compliance.

21.4 Recordkeeping

The CEO or acting Director of Corporate Finance will maintain a file of the records relating to investment banking activity, including any engagement agreements.

21.5 Adding Engagements to F&C's Watch or Restricted List

The CEO or acting Director of Corporate Finance will notify Compliance of any publicly-traded company, and any publicly-traded target companies, whenever an engagement agreement is signed or when target companies are identified. "Target companies" include companies identified as possible subjects of the investment banking engagement (potential merger or acquisition target of the corporate finance customer, etc.).

Compliance will determine whether the issuer's securities should be added to F&C's Watch List or Restricted List. In general, investment banking activities that are publicly known

and where restriction is appropriate will be included on the Restricted List. Confidential investment banking activities generally will be included on the Watch List. Procedures regarding F&C's Watch List and Restricted List are included in the chapter titled "Insider Trading." Compliance is responsible for review of any identified transactions and taking necessary corrective action.

22 Research

Requirement. FINRA Rule 2241 has consolidated the previous NASD Rule 2711 and NYSE Rule 344 though has substantively kept most of the core provisions and requirements of those rules. The new rule broadens the obligations on members to identify and manage research-related conflicts of interest and restructures the rules to provide some flexibility in compliance while extending protections where gaps have been identified. Rule 2241 contains the requirement to establish, maintain and enforce written policies and procedures reasonably designed to identify conflicts of interest related to the preparation, content and distribution of research reports and public appearances by research analysts and the interaction between research analysts and persons outside of the research department, including investment banking and sales and trading personnel, the subject companies and customers. These provisions set out the fundamental obligation for a member to establish and maintain a system to identify and mitigate conflicts to foster integrity and fairness in its research products and services.

Policy. The general guidelines that apply to advertising also apply to research reports. Although predictions or projections of investment results may not be included in research reports, reasonable estimates of a company's earnings or fair stock price targets based on historic trading ranges, comparison valuations within industry (similar or competing) or other generally accepted methodologies are permitted. The report should include the basis for such estimates as well as a statement that any such estimates or forecasts might not be met. The firm is no longer maintaining a Research Department, employing Research Analysts or issuing its own Research Reports. The following policies and procedures are in place should these research activities recommence.

Procedure.

22.1 Confidentiality of Research Activities

The CCO or acting Director of Research is responsible for establishing procedures to maintain the confidentiality of research activities until recommendations are publicly disseminated. Such procedures include the following:

- Maintaining files on work-in-progress in locked file drawers and/or other secured locations
- Limiting access to research computer files to authorized persons with passwords

In addition to the above, research personnel may not discuss research recommendations not yet publicly disseminated, except with the Director of Research, Compliance or other authorized research personnel.

22.2 Chinese Wall Procedures

The section titled "Chinese Wall Procedures" of this manual outlines F&C's procedures for maintaining the confidentiality of material, non-public information obtained in F&C's role in investment banking. In particular, involving a research analyst in confidential,

investment banking discussions might inhibit that analyst's ability to issue future research reports. It is important that the procedures outlined in the section "Bringing An Employee Over The Wall" be strictly adhered to.

22.3 Approval of Research Reports

The acting Director of Research, CCO or other designated Series 87 licensed principal must approve all research reports before dissemination.

22.4 General Standards

Research is subject to general standards applied to communications with the public including the following:

- Sound basis for evaluating the facts
- A reasonable basis for making a recommendation
- Inclusion of material facts or qualification of facts which, if excluded, would cause the research to be misleading
- No exaggerated, unwarranted, or misleading statements or claims

22.5 Specific Standards

A. All research reports must include the following:

- The name of F&C
- The date when the report is first published, circulated, or distributed
- Any comparison of F&C's service, personnel, facilities or charges with those of other firms must be supported by fact

B. Research reports that include recommendations must include the following:

- If the information is not current, a statement that it is not A statement that, upon request, further information will be provided
- The price at the time the recommendation is made
- For reports that include past recommendations, specific information must be included*
- For reports or other communications offering to furnish a list of all recommendations by F&C within the past year or more, specific information must be included*
- No reference to prior recommendations may imply comparable future
- performance
- Research recommendations may not include promises of specific results, exaggerated or unwarranted claims or unwarranted superlatives, opinions without a reasonable basis, or forecasts of future events which are unwarranted.

C. Other research publications:

- Monitor Stocks
 - Do not carry recommendations, stock ratings, estimates or price targets
HOWEVER, these are technically a research report and therefore require

disclosures in accordance with Rule 2241.

- Include disclaimer: “While this report may contain opinions, it does not purport to offer any investment suitability or recommendation and carries not stock rating, estimates or price targets”
- As a research report Analyst personal trading in monitor stocks must also follow the restrictions as discussed previous sections.
- Research Universe
 - A research report covering six or more subject companies, for the purposes of the disclosures required in Rule 2241, may direct the reader in a clear manner as to where they may obtain applicable current disclosures in written or electronic format.

*Specific rule requirements should be consulted, or contact the Director of Research or Compliance if there are questions regarding required information

22.6 Disclosures on Reports

Rule 2241 carries over in substance the previously required disclosures under NASD Rule 2711. Research reports must include disclosure of the following, if applicable:

- The research analyst or any member of his/her household does/does not hold a long or short position, options, warrants, rights or futures of this security in their personal account(s).
- As of the end of the month preceding the date of publication of this report, F&C and Company did/did not beneficially own 1% or more of any class of common equity securities of the subject company.
- There is/is not any actual material conflict of interest that either the analyst or F&C and Company is aware of.
- The research analyst has/has not received any compensation for any investment banking business with this company in the past twelve months and does/does not expect to receive any in the next three months.
- The research analyst has/has not received any compensation from the subject company in the previous 12 months
- F&C and Company has/has not been engaged for investment banking services with the subject company during the past twelve months and does/does not anticipate receiving compensation for such services in the next three months.
- F&C and Company has/has not served as a broker, either as agent or principal, buying back stock for the subject company’s account as part of the company’s authorized stock buy-back program in the last twelve months.

- If the member was making a market in the securities of the subject company at the time of publication or distribution of the research report.
- No director, officer or employee of F&C and Company serves as a director, officer or advisory board member to the subject company.
- If there is any other material conflict of interest of the research analyst or the firm that the research analyst know or has reason to know at the time of the publication or distribution of the research report.

22.7 Other Disclosures

The information contained in this report is based on sources considered to be reliable, but not guaranteed, to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of this date, and are subject to change without notice. This report has been prepared solely for informative purposes and is not a solicitation or an offer to buy or sell any security. The securities described may not be qualified for purchase in all jurisdictions. Because of individual requirements, advice regarding securities mentioned in this report should not be construed as suitable for all accounts. This report does not take into account the investment objectives, financial situation and needs of any particular client of F&C and Company.

Some securities mentioned herein relate to small speculative companies that may not be suitable for some accounts. F&C and Company suggests that prior to acting on any of the recommendations herein, the recipient should consider whether such a recommendation is appropriate given their investment objectives and current financial circumstances. Past performance does not guarantee future results. Additional information is available upon request.

22.8 Analyst Certification

I, _____, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not receive direct or indirect compensation related to the specific recommendations expressed in this report.

22.9 Research Analysts

"Research analyst" means the associated person who is primarily responsible for, and any associated person who reports directly or indirectly to such a research analyst in connection with, preparation of the substance of a research report, whether or not any such person has the job title of "research analyst."

22.9.1 Restrictions on Relationship with Research Department

(a) No research analyst may be subject to the supervision or control of any employee of F&C's investment banking department, and no personnel engaged in investment banking activities may have any influence or control over the compensatory evaluation of a research analyst.

(b) Except as provided in paragraph (c) below, no employee of the investment banking department or any other employee of F&C who is not directly responsible for investment research ("non-research personnel"), other than legal or compliance personnel, may review or approve a research report of F&C before its publication.

(c) Non-research personnel may review a research report before its publication as necessary only to verify the factual accuracy of information in the research report or identify any potential conflict of interest, provided that:

(1) any written communication between non-research personnel and research department personnel concerning the content of a research report must be made either through authorized legal or compliance personnel of F&C or in a transmission copied to such personnel; and

(2) any oral communication between non-research personnel and research department personnel concerning the content of a research report must be documented and made either through authorized legal or compliance personnel acting as intermediary or in a conversation conducted in the presence of such personnel.

22.9.2 Restrictions on Communications with the Subject Company

(a) Except as provided in paragraphs (b)(2) and (b)(3), F&C may not submit a research report to the subject company before its publication.

(b) F&C may submit sections of such a research report to the subject company before its publication for review as necessary only to verify the factual accuracy of information in those sections, provided that:

(1) the sections of the research report submitted to the subject company do not contain the research summary, the research rating or the price target;

(2) a complete draft of the research report is provided to legal or compliance personnel before sections of the report are submitted to the subject company; and

(3) if, after submitting the sections of the research report to the subject company the research department intends to change the proposed rating or price target, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change. F&C must retain copies of any draft and the final version of such a research report for three years following its publication.

(c) F&C may notify a subject company that F&C intends to change its rating of the subject company's securities, provided that the notification occurs on the business day before F&C

announces the rating change, after the close of trading in the principal market of the subject company's securities.

(d) No research analyst may participate in efforts to solicit investment banking business.

Accordingly, no research analyst may, among other things, participate in any "pitches" for investment banking business to prospective investment banking clients, or have other communications with companies for the purpose of soliciting investment banking business.

(e) A research analyst is prohibited from directly or indirectly:

(1) participating in a road show related to an investment banking services transaction; and

(2) engaging in any communication with a current or prospective customer in the presence of investment banking department personnel or company management about an investment banking services transaction.

(f) Investment banking department personnel are prohibited from directly or indirectly:

(1) directing a research analyst to engage in sales or marketing efforts related to an investment banking services transaction; and,

(2) directing a research analyst to engage in any communication with a current or prospective customer about an investment banking services transaction.

(g) Any written or oral communication by a research analyst with a current or prospective customer or internal personnel related to an investment banking services transaction must be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.

22.9.3 Restrictions on Research Analyst Compensation

(a) No member may pay any bonus, salary or other form of compensation to a research analyst that is based upon a specific investment banking services transaction.

(b) The compensation of a research analyst who is primarily responsible for the preparation of the substance of a research report must be reviewed and approved at least annually by a committee that reports to the member's board of directors, or when the member has no board of directors, to a senior executive officer of the member. This committee may not have representation from the member's investment banking department. The committee must consider the following factors when reviewing such a research analyst's compensation, if applicable:

(1) the research analyst's individual performance, including the analyst's productivity and the quality of the analyst's research;

(2) the correlation between the research analyst's recommendations and the stock price performance; and

(3) the overall ratings received from clients, sales force, and peers independent of the member's investment banking department, and other independent ratings services.

The committee may not consider as a factor in reviewing and approving such a research analyst's compensation his or her contributions to the member's investment banking business. The committee must document the basis upon which each such research analyst's compensation was established. The annual attestation required by Rule 2241(b)(2), formerly Rule 2711(i), must certify that the committee reviewed and approved each such research analyst's compensation and documented the basis upon which this compensation was established.

22.9.4 Prohibition of Promise of Favorable Research

No member may directly or indirectly offer favorable research, a specific rating or a specific price target, or threaten to change research, a rating or a price target, to a company as consideration or inducement for the receipt of business or compensation.

22.9.5 Restrictions on Publishing Research Reports and Public Appearances; Termination of Coverage

Rule 2241 modifies the quiet period after an initial public offering or secondary offering and before and after the expiration, waiver or termination of a lock-up agreement.

(a) No member may publish or otherwise distribute a research report and no research analyst may make a public appearance regarding a subject company for which the member acted as manager or co-manager of:

(1) an initial public offering, for 10 calendar days following the date of the offering; or
(2) a secondary offering, for 3 calendar days following the date of the offering; provided that:

a) This does not prevent a member from publishing or otherwise distributing a research report, or prevent a research analyst from making a public appearance, concerning the effects of significant news or a significant event on the subject company within such 10- and 3-day periods, and provided further that legal or compliance personnel authorize publication of that research report before it is issued or authorize the public appearance before it is made; and

b) This will not prevent a member from publishing or otherwise distributing a research report pursuant to SEC Rule 139 regarding a subject company with "actively-traded securities," as defined in Regulation M, 17 CFR 242.101(c)(1), and will not prevent a research analyst from making a public appearance concerning such a company.

(b) No member that has agreed to participate or is participating as an underwriter or dealer (other than as manager or co-manager) of an issuer's initial public offering may publish or otherwise distribute a research report or make a public appearance regarding that issuer for 10 calendar days after the date of the offering.

(c) For purposes of paragraphs (f)(1) and (f)(2), the term "date of the offering" refers to the later of the effective date of the registration statement or the first date on which the security was bona fide offered to the public.

22.9.6 Restrictions on Personal Trading by Research Analysts

(1) No research analyst account may purchase or receive any securities before the issuer's initial public offering if the issuer is principally engaged in the same types of business as companies that the research analyst follows.

(2) No research analyst account may purchase or sell any security issued by a company that the research analyst follows, or any option on or derivative of such security, for a period beginning 30 calendar days before and ending five calendar days after the publication of a research report concerning the company or a change in a rating or price target of the company's securities; provided that:

(A) a member may permit a research analyst account to sell securities held by the account that are issued by a company that the research analyst follows, within 30 calendar days after the research analyst began following the company for the member;

(B) a member may permit a research analyst account to purchase or sell any security issued by a subject company within 30 calendar days before the publication of a research report or change in the rating or price target of the subject company's securities due to significant news or a significant event concerning the subject company, provided that legal or compliance personnel pre-approve the research report and any change in the rating or price target.

(3) No research analyst account may purchase or sell any security or any option on or derivative of such security in a manner inconsistent with the research analyst's recommendation as reflected in the most recent research report published by the member.

(4) Legal or compliance personnel may authorize a transaction otherwise prohibited by paragraphs (g)(2) and (g)(3) based upon an unanticipated significant change in the personal financial circumstances of the beneficial owner of the research analyst account, provided that:

(A) legal or compliance personnel authorize the transaction before it is entered;

(B) each exception is granted in compliance with policies and procedures adopted by the member that are reasonably designed to ensure that these transactions do not create a conflict of interest between the professional responsibilities of the research analyst and the personal trading activities of a research analyst account; and

(C) the member maintains written records concerning each transaction and the justification for permitting the transaction for three years following the date on which the transaction is approved.

(5) The prohibitions in paragraphs (g)(1) through (g)(3) do not apply to a purchase or sale of the securities of:

(A) any registered diversified investment company as defined under Section (5)(b)(1) of the Investment Company Act of 1940; or

(B) any other investment fund over which neither the research analyst nor a member of

the research analyst's household has any investment discretion or control, provided that:

- (i) the research analyst accounts collectively own interests representing no more than 1% of the assets of the fund;
- (ii) the fund invests no more than 20% of its assets in securities of issuers principally engaged in the same types of business as companies that the research analyst follows; and
- (iii) if the investment fund distributes securities in kind to the research analyst or household member before the issuer's initial public offering, the research analyst or household member must either divest those securities immediately or the research analyst must refrain from participating in the preparation of research reports concerning that issuer.

(6) Legal or compliance personnel of the member shall pre-approve all transactions of persons who oversee research analysts to the extent such transactions involve equity securities of subject companies covered by the research analysts that they oversee. This pre-approval requirement shall apply to all persons, such as the director of research, supervisory analyst, or member of a committee, who have direct influence or control with respect to the preparation of the substance of research reports or establishing or changing a rating or price target of a subject company's equity securities.

22.10 Disclosure Requirements

22.10.1 Ownership and Material Conflicts of Interest

A member must disclose in research reports and a research analyst must disclose in public appearances:

- (A) if the research analyst or a member of the research analyst's household has a financial interest in the securities of the subject company, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position);
- (B) if, as of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), the member or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company. Computation of beneficial ownership of securities must be based upon the same standards used to compute ownership for purposes of the reporting requirements under Section 13(d) of the Securities Exchange Act of 1934;
- (C) any other actual, material conflict of interest of the research analyst or member of which the research analyst knows or has reason to know at the time of publication of the research report or at the time of the public appearance.

22.10.2 Receipt of Compensation

(A) A member must disclose in research reports:

- (i) if the research analyst received compensation:
 - a. based upon (among other factors) the member's investment banking revenues; or

- b. from the subject company in the past 12 months.
- (ii) the member or affiliate:
 - a. managed or co-managed a public offering of securities for the subject company in the past 12 months;
 - b. received compensation for investment banking services from the subject company in the past 12 months; or
 - c. expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months.
- (iii) if (1) as of the end of the month immediately preceding the date of publication of the research report (or the end of the second most recent month if the publication date is less than 30 calendar days after the end of the most recent month) or (2) to the extent the research analyst or an employee of the member with the ability to influence the substance of the research knows:
 - a. the member received any compensation for products or services other than investment banking services from the subject company in the past 12 months; or
 - b. the subject company currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of the member. In such cases, the member also must disclose the types of services provided to the subject company. For purposes of this Rule 2711(h)(2), now retained under Rule 2241, the types of services provided to the subject company shall be described as investment banking services, non-investment banking securities-related services, and non-securities services.
- (iv) if, to the extent the research analyst or an employee of the member with the ability to influence the substance of the research report knows an affiliate of the member received any compensation for products or services other than investment banking services from the subject company in the past 12 months.
- (v) if, to the extent the research analyst or member has reason to know, an affiliate of the member received any compensation for products or services other than investment banking services from the subject company in the past 12 months.
 - a. This requirement will be deemed satisfied if such compensation is disclosed in research reports within 30 days after completion of the last calendar quarter, provided that the member has taken steps reasonably designed to identify any such compensation during that calendar quarter. This requirement shall not apply to any subject company as to which the member initiated coverage since the beginning of the current calendar quarter.
 - b. The research analyst and the member will be presumed not to have reason to know whether an affiliate received any compensation for products or services other than investment banking services from the subject company in the past 12 months if the member maintains and enforces policies and procedures reasonably designed to prevent the research analysts and employees of the member with the ability to influence the substance of research reports from, directly or indirectly, receiving information from the affiliate concerning whether the affiliate received such compensation.
- (vi) For the purposes of this Rule 2711(h)(2), now under Rule 2241, an employee of the member with the ability to influence the substance of the research report is an employee who, in the ordinary course of that person's duties, has the authority to review the

particular research report and to change that research report prior to publication.

(B) A research analyst must disclose in public appearances:

(i) if, to the extent the research analyst knows or has reason to know, the member or any affiliate received any compensation from the subject company in the past 12 months;

(ii) if the research analyst received any compensation from the subject company in the past 12 months; or

(iii) if, to the extent the research analyst knows or has reason to know, the subject company currently is, or during the 12-month period preceding the date of distribution of the research report, was, a client of the member. In such cases, the research analyst also must disclose the types of services provided to the subject company, if known by the research analyst.

(C) A member or research analyst will not be required to make a disclosure required by paragraphs (h)(2)(A)(ii)(b) and (c), (h)(2)(A)(iii)(b), or (h)(2)(B)(i) and (iii) to the extent such disclosure would reveal material non-public information regarding specific potential future investment banking transactions of the subject company.

22.10.3 Position as Officer or Director

Requirement. A member must disclose in research reports and a research analyst must disclose in public appearances if the research analyst or a member of the research analyst's household serves as an officer, director or advisory board member of the subject company.

22.10.4 Meaning of Ratings

Requirement. If a research report contains a rating, the member must define in the research report the meaning of each rating used by the member in its rating system. The definition of each rating must be consistent with its plain meaning.

Policy. F&C and Company Rating System: F&C and Company utilizes a four tier rating system for potential total returns over the next 12 months.

Strong Buy: *The stock is expected to have total return potential of at least 20%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.*

Buy: *The stock is expected to have total return potential of at least 10%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.*

Hold: *The stock is expected to have total return potential between positive 10% and negative 10%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.*

Sell: *Expect a negative total return of at least 10%. Current positions may be used as a*

source of funds.

22.10.5 Distribution of Ratings

(A) Regardless of the rating system that a member employs, a member must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy," "hold/neutral," or "sell" rating.

(B) In each research report, the member must disclose the percentage of subject companies within each of these three categories for whom the member has provided investment banking services within the previous twelve months.

(C) The information that is disclosed under paragraphs (h)(5)(A) and (h)(5)(B) must be current as of the end of the most recent calendar quarter (or the second most recent calendar quarter if the publication date is less than 15 calendar days after the most recent calendar quarter) and must reflect the distribution of the most recent ratings issued by the member for all subject companies, unless the most recent rating was issued more than 12 months ago.

(D) The requirements of paragraph (h)(5) shall not apply to any research report that does not contain a rating.

Policy. 12/1/2016

Ratings Distribution for F&C and Company

----- Investment Banking -----

Number of Percent Number of Percent of
Rating Stocks of Total Stocks

Rating
category

SB/Buy 41 61% 3 7%

Hold 22 33% 0 0%

Sell 4 6% 0 0%

67 100% 3 4%

The above represents our ratings distribution on the stocks in the F&C and Company research universe, together with the number in (and percentage of) each category for which F&C and Company provided investment-banking services in the previous twelve months.

11/18/15 Hold

Target: \$80

01/05/16 Buy

Target: \$80

02/11/16 Buy

Target: \$83

07/26/16 Buy

Target: \$90

12/01/16 Buy
Target: \$89
Date
Nature of Report
Rating
Price Target

F&C and Company does/does not make a market in the subject security at the date of publication of this report. As a market maker, F&C and Company could act as principal or agent with respect to the purchase or sale of those securities.

22.10.6 Price Chart

If a research report contains either a rating or a price target, and the member has assigned a rating or price target to the subject company's securities rating for at least one year, the research report must include a line graph of the security's daily closing prices for the period that the member has assigned any rating or price target or for a three-year period, whichever is shorter. The line graph must:

- (A) indicate the dates on which the member assigned or changed each rating or price target;
- (B) depict each rating and price target assigned or changed on those dates; and
- (C) be current as of the end of the most recent calendar quarter (or the second most recent calendar quarter if the publication date is less than 15 calendar days after the most recent calendar quarter).

22.10.7 Price Targets

Requirement. If a research report contains a price target, the member must disclose in the research report the valuation methods used to determine the price target. Price targets must have a reasonable basis and must be accompanied by a disclosure concerning the risks that may impede achievement of the price target.

Policy.

Valuation and Price Target Methodology:

We are valuing XXXX on a price to earnings basis. We believe a mature company with a modest growth outlook and what we believe to be above average stability and visibility which is seeing its business turn up can command a mid-teens P/E multiple. Supporting our valuation is a broad and valuable customer base which should allow XXXX to capitalize in the increased spending on IP telephony solutions.

Risks to Achievement of Estimates and Price Target:

- XXXX's business is closely tied to capital spending associated with IT budgets, which have been tight over the past several years. While there is some indication that spending activity may be increasing, if it continues to stagnate, NRRD's financial

- performance could be short of expectations.
- XXXX continues to be heavily leveraged such that if its financial performance lags, it could violate its lending covenants and be forced to compromise its business plan, negatively impacting long-term potential..

22.10.8 Market Making

A member must disclose in research reports if it was making a market in the subject company's securities at the time that the research report was published.

Disclosure Required by Other Provisions

In addition to the disclosure required by this rule, members and research analysts must provide disclosure in research reports and public appearances that is required by applicable law or regulation, including NASD Rule 2210 and the antifraud provisions of the federal securities laws.

22.10.9 Prominence of Disclosure

The disclosures required by this paragraph (h) must be presented on the front page of research reports or the front page must refer to the page on which disclosures are found. Disclosures and references to disclosures must be clear, comprehensive and prominent.

22.10.10 Disclosures in Research Reports Covering Six or More Companies

When a member distributes a research report covering six or more subject companies (a "compendium report"), for purposes of the disclosures required in paragraph (h), the compendium report may direct the reader in a clear manner as to where they may obtain applicable current disclosures. Electronic compendium reports may include a hyperlink to the required disclosures. Paper-based compendium reports must provide either a toll-free number to call or a postal address to write for the required disclosures and may also include a web address of the member where the disclosures can be found.

22.10.11 Records of Public Appearances

Rule 2241 substantively maintains the required disclosures under Rule 2711 including if the member or its affiliates beneficially own 1 percent or more of the common equity securities of the subject company. Members must maintain records of public appearances by research analysts sufficient to demonstrate compliance by those research analysts with the applicable disclosure requirements under paragraph (h) of this Rule. Such records must be maintained for three years from the date of the public appearance.

22.11 Third Party Research Reports Requirement.

(A) Subject to paragraph (h)(13)(B) of this Rule, if a member distributes or makes available

any third-party research report, the member must accompany the research report with, or provide a web address that directs the recipient to, the current applicable disclosures, as they pertain to the member, required by paragraphs (h)(1)(B), (h)(1)(C), (h)(2)(A)(ii) and (h)(8) of this Rule. Members must establish written supervisory policies and procedures reasonably designed to ensure the completeness and accuracy of all applicable disclosures.

(B) The requirements of paragraph (h)(13)(A) of this Rule shall not apply to independent third-party research reports made available by a member to its customers:

(i) upon request;

(ii) in connection with a solicited order in which a registered representative has informed the customer, during the solicitation, of the availability of independent research on the solicited equity security, and the customer requests such independent research; or

(iii) through a member-maintained web site.

(C) Subject to paragraph (h)(13)(D) of this Rule, a registered principal (or supervisory analyst approved pursuant to Rule 344 of the New York Stock Exchange) must approve by signature or initial all third-party research reports distributed by a member. The approval of third-party research shall be based on a review by the designated principal (or supervisory analyst approved pursuant to NYSE Rule 344) to determine that the content of the research report, pursuant to Rule 2210(d)(1)(B), contains no untrue statement of material fact or is otherwise not false or misleading. For the purposes of this Rule only, a member's obligation to review a third-party research report pursuant to Rule 2210(d)(1)(B) extends to any untrue statement of material fact or any false or misleading information that:

should be known from reading the report; or

is known based on information otherwise possessed by the member.

(D) The requirements of paragraph (h)(13)(C) of this Rule shall not apply to independent third-party research reports distributed or made available by a member.

(E) For the purposes of this Rule, "third-party research report" shall mean a research report that is produced by a person or entity other than the member and "independent third-party research report" shall mean a third-party research report, in respect of which the person or entity producing the report:

(i) has no affiliation or business or contractual relationship with the distributing member or that member's affiliates that is reasonably likely to inform the content of its research reports; and

(ii) makes content determinations without any input from the distributing member or that member's affiliates.

22.12 Supervisory Procedures

Each member subject to this rule must adopt and implement written supervisory procedures reasonably designed to ensure that the member and its employees comply with the provisions of this rule though FINRA Rule 2241 no longer contain the requirement the firm must attest annually to NASD by April 1 of each year that it has adopted and implemented those procedures.

Prohibition of Retaliation against Research Analysts

No member and no employee of a member who is involved with the member's investment banking activities may, directly or indirectly, retaliate against or threaten to retaliate against any research analyst employed by the member or its affiliates as a result of an adverse, negative, or otherwise unfavorable research report or public appearance written or made by the research analyst that may adversely affect the member's present or prospective investment banking relationship with the subject company of a research report. This prohibition shall not limit a member's authority to discipline or terminate a research analyst, in accordance with the member's policies and procedures, for any cause other than the writing of such an unfavorable research report or the making of such an unfavorable public appearance.

22.13 Exceptions for Small Firms

The provisions of paragraph (b) shall not apply to members that over the previous three years, on average per year, have participated in 10 or fewer investment banking services transactions as manager or co-manager and generated \$5 million or less in gross investment banking services revenues from those transactions. For purposes of this paragraph (k), the term "investment banking services transactions" includes the underwriting of both corporate debt and equity securities but not municipal securities. Members that qualify for this exemption must maintain records for three years of any communication that, but for this exemption, would be subject to paragraph (b) of this Rule.

Specific Supervisory Responsibilities

Function:	Research
Principal(s) Assigned:	Acting Director of Research and CCO
Location:	Minneapolis, MN
Registrations:	Series 4, 7, 24, 55, 63, 66, 87
Effective Date:	December 14, 2016

RESPONSIBILITIES

- Supervise overall Research Department and associated activities .
- Establish procedures to maintain the confidentiality of research activities including “Chinese Walls” to ensure the protection and confidentiality of non-public information
- Review and approval of all research reports before dissemination.
- Ensure general and specific standards on the content of research reports along with the inclusion of all proper and required disclosures
- Supervise communications of research analysts with parties outside of department and maintain restrictions on the communications involving subject companies, investment banking personnel and trading.
- Maintain restrictions on personal trading by research analysts including pre-approval of transactions.
- Ensure research analyst compensation is reviewed and approved by committee and not directly related to contributions to the firm’s investment banking business

Appendix 1 - BRANCH OFFICES

CRD Branch #	Branch Address	Supervisor
159265	5684 BISHOP AVENUE INVER GROVE HEIGHTS, MN 55076 (OSJ)	GILBERTSON, BEN
159266	10900 WAYZATA BLVD, SUITE 200 MINNETONKA, MN 55305 (OSJ)	JOHNSTON, JOE (RETAIL) FELTL, JOHN CHRISTOPHER FELTL, MARY JO
309400	319 BARRY AVENUE, SUITE 210 WAYZATA, MN 55391 (OSJ)	YURECKO, DIANE KAY
351734	2420 E 117 th STREET BURNSVILLE, MN 55337 (NON-OSJ)	RICHARDS, MICHAEL (PERSON-IN-CHG) JOHNSTON, JOE (OSJ SUPV)
352046	3333 WEST DIVISION STREET, SUITE 203 ST. CLOUD, MN 56301 (NON-OSJ)	FROM, MICHAEL C. (PERSON-IN-CHG) JOHNSTON JOE (OSJ SUPV)
489420	20 WEST KINZIE, SUITE 1700 CHICAGO, IL 60603 (OSJ)	METZ, WILLIAM (PERSON-IN_CHG) JOHNSTON, JOE (OSJ SUPV)
591807	201 EAST VANDALIA EDWARDSVILLE, IL 62025 (OSJ)	FELTL, MARY JO (OSJ SUPV)

Appendix 2 - DESIGNATION OF SUPERVISORS

The following chart identifies F&C's supervisors, title, location of supervision and licenses held. Compliance shall maintain a list of all associated persons and their designated supervisor.

F&C and Company Supervisor Chart

Supervisor Title Location License(s) Associated Persons Supervised

John C. Feltl CEO Minneapolis 7, 24, 63, 65

Mary J. Feltl President Minnetonka, Branch Manager Edwardsville 7, 24, 63

Michael B. Schierman CFO, FINOP Minnetonka 4, 7, 24, 27, 63

Mitchell J. Edwards COO, Minnetonka 4, 7, 24, 53, 55, 66, 87

Dirk G. Van Krevelen CCO Minneapolis 4, 7, 24, 55, 63, 66, 87

Brennan Olson IT Manager Minnetonka N/A

Debra A. Palfi Operations Manager Minnetonka N/A

Joe Johnston Branch Manager Minnetonka 7, 24, 63, 65

Diane Yurecko Branch Manager Wayzata 7, 24, 55, 63

Ben Gilbertson Branch Manager IGH 7, 24, 63, 65

Scott Griffiths Compliance Officer Minneapolis 7, 24, 53

Appendix 3 - ANNUAL COMPLIANCE AND SUPERVISION CERTIFICATION

The undersigned is the chief executive officer (or equivalent officer) of F&C and Company (the “Member”). As required by FINRA Rule 3130(b), the undersigned make(s) the following certification:

1. The Member has in place processes to:

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

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

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

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

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

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

SIGNED:

John C. Feltl, CEO

Date

Appendix 5 - BREAKPOINT DISCLOSURE STATEMENT

BREAK POINT DISCLOSURE STATEMENT

Before investing in mutual funds, it is important that you understand the sales charges, expenses, and management fees that you will be charged, as well as the breakpoint discounts to which you may be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you reduce the cost of your investment. This disclosure document will give you general background information about these charges and discounts. However, sales charges, expenses, management fees, and breakpoint discounts vary from mutual fund to mutual fund. Therefore, you should discuss these issues with your financial advisor and review each mutual fund's prospectus and statement of additional information, which are available from your financial advisor, to get the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

Sales Charges

Investors that purchase mutual funds must make certain choices, including which funds to purchase and which class share is most advantageous. Each mutual fund has a specified investment strategy. You need to consider whether the mutual fund's investment strategy is compatible with your investment objectives. Additionally, most mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund's portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class. As a general rule, Class A shares carry a "front-end" sales charge or "load" that is deducted from your investment at the time you buy fund shares. This sales charge is a percentage of your total purchase. As explained below, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain pre-determined levels of investment, which are called "breakpoint discounts." In contrast, Class B and C shares usually do not carry any front-end sales charges. Instead, investors that purchase Class B or C shares pay asset-based sales charges, which may be higher than the charges associated with Class A shares. Investors that purchase Class B and C shares may also be required to pay a sales charge known as a contingent deferred sales charge when they sell their shares, depending upon the rules of the particular mutual fund.

Breakpoint Discounts

Most mutual funds offer investors a variety of ways to qualify for breakpoint discounts on the sales charge associated with the purchase of Class A shares. In general, most mutual funds provide breakpoint discounts to investors who make large purchases at one time.

The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales load decreases. In fact, the entire sales charge may be waived for investors that make very large purchases of Class A shares. Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which breakpoint discounts apply. Additionally, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases through "*Rights of Accumulation*," and future purchases, based upon "*Letters of Intent*." This document provides general information regarding *Rights of Accumulation* and *Letters of Intent*. However, mutual funds have different rules regarding the availability of *Rights of Accumulation* and *Letters of Intent*. Therefore, you should discuss these issues with your financial advisor and review the mutual fund prospectus to determine the specific terms upon which a mutual fund offers *Rights of Accumulation* or *Letters of Intent*.

Rights of Accumulation

Many mutual funds allow investors to count the value of previous purchases of the same fund, or another fund within the same fund family, with the value of the current purchase, to qualify for breakpoint discounts. Moreover, mutual funds allow investors to count existing holdings in multiple accounts, such as IRAs or accounts at other broker-dealers, to qualify for breakpoint discounts. Therefore, if you have accounts at other broker-dealers and wish to take advantage of the balances in these accounts to qualify for a breakpoint discount, you must advise your financial advisor about those balances. You may need to provide documentation establishing the holdings in those other accounts to your financial advisor if you wish to rely upon balances in accounts at another firm.

In addition, many mutual funds allows investors to count the value of holdings in accounts of certain related parties, such as spouses or children, to qualify for breakpoint discounts. Each mutual fund has different rules that govern when relatives may rely upon each other's holdings to qualify for breakpoint discounts. You should consult with your financial advisor or review the mutual fund's prospectus or statement of additional information to determine what these rules are for the fund family in which you are investing. If you wish to rely upon the holdings of related parties to qualify for a breakpoint discount, you should advise your financial advisor about these accounts. You may need to provide documentation to your financial advisor if you wish to rely upon balances in accounts at another firm.

Mutual funds also follow different rules to determine the value of existing holdings. Some funds use the current net asset value (NAV) of existing investments in determining whether an investor qualifies for a breakpoint discount. However, a small number of funds use the historical cost, which is the cost of the initial purchase, to determine eligibility for breakpoint discounts. If the mutual fund uses historical costs, you may need to provide account records, such as confirmation statements or monthly statements, to

qualify for a breakpoint discount based upon previous purchases. You should consult with your financial advisor and review the mutual fund's prospectus to determine whether the mutual fund uses either NAV or historical costs to determine breakpoint eligibility.

Letters of Intent – Most mutual funds allow investors to qualify for breakpoint discounts by signing a Letter of Intent, which commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. For example, if an investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign a Letter of Intent at the time of the first purchase and receive the breakpoint discount associated with \$50,000 investments on the first and all subsequent purchases. Additionally, some funds offer retroactive Letters of Intent that allow investors to rely upon purchases in the recent past to qualify for a breakpoint discount. However, if an investor fails to invest the amount required by the Letter of Intent, the fund is entitled to retroactively deduct the correct sales charges based upon the amount that the investor actually invested. If you intend to make several purchases within a 13 month period, you should consult your financial advisor and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

As you can see, understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price. The availability of breakpoint discounts may save you money and may also affect your decision regarding the appropriate share class in which to invest. Therefore, you should discuss the availability of breakpoint discounts with your financial advisor and carefully review the mutual fund prospectus and its statement of additional information, which you can get from your financial advisor, when choosing among the share classes offered by a mutual fund. If you wish to learn more about mutual fund share classes or mutual fund breakpoints, you may wish to review the investor alerts available on FINRA Web site. See www.nasdr.com/alert_mfclasses.htm, and www.nasdr.com/alert_breakpoints.htm or visit the many mutual fund Web sites available to the public.

Appendix 6 – Variable Annuity Compliance Manual (Separate Manual)

Appendix 7 – Alternative Investments

As has been discussed in prior sections of this document, FINRA Rule 2111 specifically states requirements for member firms and associated person specific to making recommendations and having a reasonable basis to believe that the recommended transaction is suitable.

The firm will on occasion approve certain Alternative Investment for sale to its client base by the representatives. Alternative Investments include the following, but are not limited to:

- Non-Traded REIT's
- DPP's
- BDC's
- Oil & Gas Programs
- Equipment Leasing

Requirement: In order to address Rule 2111.05.a regarding the firms Reasonable-basis suitability obligation the firm must have a basis to believe that a product is suitable for some of its investors.

Policy: F&C has implemented a Due Diligence review process to ensure an understanding of any new Alternative Investment made available to the public

Procedure: Prior to making any Alternative Investment available, the firm has created a Product Review Group responsible for discussing whether the firm will approve the product for sale. The CCO is responsible for calling the meeting and documenting the approval of any product. Currently the group is made up of the CCO, COO, President as voting members, and one member from Corporate Finance (non-voting) that assists with reviewing the details of the product.

Requirement: Rule 2111.05.b details the firms obligation regarding Customer-specific suitability, having a reasonable basis to believe a recommendation is suitable for a particular customer or customers

Policy: F&C has implemented specific client suitability guidelines regarding the purchase of Alternative Investments. The guidelines apply certain purchase amount limits to clients at various ages. Also the firm has specified minimums regarding client Net Worth and Income that must be met to make the purchases. Additional documentation may be required as needed.

Procedure: The Designated Principal will review each purchase to ensure it complies both with the firms guidelines and any state specific guidelines that may be denoted in the subscription agreement, or other sponsor documentation. The Designated Principal will sign and date both firm documents and any sponsor documentation as required to demonstrate approval of the purchase.