

Written Supervisory Procedures Manual

SAMCO Capital Markets, Inc.

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TABLE OF CONTENTS

INTRODUCTION.....	1
1 DESIGNATION OF SUPERVISORS AND OFFICES	4
1.1 Designation Of Offices	9
2 GENERAL EMPLOYEE POLICIES.....	11
2.1 Standards Of Conduct	11
2.2 Outside Business Activities.....	11
2.3 Private Securities Transactions	12
2.4 Employee And Employee Related Accounts	13
2.4.1 Employee And Employee Related Accounts Defined.....	13
2.4.2 Outside Accounts	13
2.4.3 Review Of Transactions	14
2.4.4 Insider Trading.....	14
2.4.5 Sharing In Accounts	15
2.4.6 Prohibition On Purchases Of Initial Public Offerings (IPOs).....	15
2.5 Gifts, Gratuities And Entertainment	16
2.5.1 Gifts To Others	17
2.5.2 Accepting Gifts	17
2.5.3 Entertainment	17
2.5.4 Gifts, Loans, And Entertainment Involving Unions And Union-Affiliated Individuals	18
2.5.5 Gifts Or Payments To Public Officials	18
2.6 Privacy Policy	19
2.7 Reporting Possible Law Or Rule Violations	19
2.7.1 Reporting	20
2.7.2 Confidentiality Of Employee Reporting.....	20
2.7.3 Notification Of Chief Compliance Officer	20
2.7.4 Investigation	20
2.7.5 Anti-Retaliation	20
2.7.6 Federal Whistleblower Laws And Rules.....	21
2.8 The Foreign Corrupt Practices Act (FCPA)	21
2.8.1 FCPA Prohibitions	22
2.8.2 Required Approvals	22
2.8.3 Contracts With Third Parties.....	23
2.8.4 Business Entertainment, Gifts And Travel Expenses	23
2.8.5 Promotional/Educational Expenses.....	23
2.8.6 Facilitating Payments	23
2.8.7 No Cash Payments To Foreign Officials	23
2.8.8 Political Contributions	24
2.8.9 Financial And Accounting Controls.....	24
2.8.10 Certifications	24
2.9 Charitable Contributions	24
2.10 Media Contact Is Limited To Certain Authorized Employees	24
2.11 Requests For Information From Outside Sources	25
2.12 Internal Reviews And Investigations.....	26
2.13 Internal Disciplinary Actions.....	26
2.13.1 When Disciplinary Action Is Considered.....	26
2.13.2 Who Determines Disciplinary Action	26
2.13.3 Types Of Discipline.....	26
2.13.4 Additional Action.....	27
2.13.5 Considerations In Determining Type Of Discipline	27
2.14 Employee Obligation To Notify The Firm And The Firm's Obligation To Report	27
2.14.1 Reporting Requirements.....	29
2.15 Money Laundering	30
2.15.1 Background	30
2.15.2 Shell Companies	30

2.15.3 Penalties.....	31
2.15.4 Treasury Dept. OFAC List	31
2.15.5 Preventing Money Laundering.....	32
2.15.6 Cash Deposits Not Accepted.....	33
2.15.7 Reports Of AML Non-Compliance And Other Potential Crimes	33
2.15.8 Currency Transaction Reporting.....	34
2.15.9 Recordkeeping Requirements	34
2.15.10 AML Compliance Officer.....	34
2.15.11 Identity Theft.....	34
2.16 Emergency Business Recovery Procedures	36
2.17 Prohibited Activities	36
2.17.1 Use Of Firm Name.....	37
2.17.2 High Pressure Sales Tactics	37
2.17.3 Providing Tax Advice Not Permitted	37
2.17.4 Rebates Of Commission.....	37
2.17.5 Sharing Commissions Or Fees With Non-Registered Persons	37
2.17.6 Settling Complaints Or Errors Directly With Customers	37
2.17.7 Borrowing From And Lending To Customers	37
2.17.8 Personal Funds Deposited In Customer Accounts	38
2.17.9 Prohibition Against Guarantees.....	38
2.17.10 Fees And Other Charges.....	38
2.17.11 Customer Signatures	38
2.17.12 Rumors	38
2.17.13 Misrepresentations	39
2.17.14 Bribes	39
2.17.15 Acting Without Registration	39
2.18 Electronic Communications Policy.....	40
2.19 Electronic Communications Policy.....	41
2.19.1 Failure To Comply	43
2.19.2 Consent To Policy	43
2.20 Mobile Devices	43
2.21 Advertising And Publishing Activities.....	43
2.22 Employees Acting As Trustees, Executors, Or Other Fiduciary Capacities	44
2.23 Use Of Titles	44
2.24 Annual Certification.....	44
3 TRAINING AND EDUCATION	45
3.1 Annual Compliance Meeting.....	45
3.2 Continuing Education.....	45
3.2.1 Regulatory Element	45
3.2.2 Firm Element	46
3.3 Registered Persons Who Fail To Complete Requirements	47
4 EMPLOYMENT, REGISTRATION AND LICENSING	49
4.1 Employment.....	49
4.1.1 Hiring Procedures.....	49
4.1.2 Termination Procedures	52
4.2 Registration And Licensing	54
4.2.1 CRD Electronic Filings.....	54
4.2.2 Dual Registration	54
4.2.3 Registration Requirement.....	54
4.2.4 Requests For Waivers	55
4.2.5 State Registrations	55
4.2.6 Parking Registrations	55
4.2.7 Form U4.....	55
4.2.8 Amendments To Form U4 Or Form U5	55
4.2.9 Assignment Of RR Numbers	56
4.3 Statutorily Disqualified Persons	56
4.3.1 Introduction.....	56
4.3.2 Hiring A Statutorily Disqualified Person.....	56

4.3.3 Regulatory Filings.....	56
4.3.4 Supervision.....	57
4.3.5 Reporting Statutory Disqualifications.....	57
4.4 Continuing Commissions Policy (Registration Not Retained).....	57
4.5 Continuing Commissions Policy (RR Registrations Retained)	58
4.6 Broker-Dealer Registration	58
4.6.1 Form BD	58
4.6.2 Change In Ownership, Control, Or Business Operations.....	59
4.6.3 Regulatory Contact Information.....	59
4.6.4 Regulatory Filings.....	60
4.6.5 Reporting Requirements.....	60
4.7 Heightened Supervision.....	60
4.7.1 Introduction.....	61
4.7.2 Identifying RRs For Heightened Supervision.....	61
4.7.3 Criteria For Identifying Candidates For Heightened Supervision	61
4.7.4 Heightened Supervision Memorandum	62
4.7.5 Scope Of Potential Heightened Supervision	62
4.7.6 Certification By RR's Supervisor	62
5 COMMUNICATIONS WITH THE PUBLIC	63
5.1 Definitions	63
5.2 Retail Communications.....	64
5.2.1 FINRA Filing Requirements.....	65
5.3 Institutional Communications.....	66
5.4 General Standards.....	67
5.4.1 Comparisons	67
5.4.2 Disclosure Of The Firm's Name	67
5.4.3 Tax Considerations.....	67
5.4.4 Disclosure Of Fees, Expenses And Standardized Performance.....	67
5.4.5 Recommendations.....	68
5.4.6 Prospectuses Filed With The SEC	68
5.4.7 Limitations On Use Of FINRA's Name And Any Other Corporate Name Owned By FINRA.....	68
5.5 Approval.....	68
5.5.1 Research	69
5.6 Testimonials.....	69
5.7 Telemarketing Scripts	70
5.8 SIPC Membership.....	70
5.9 Communications Defined As Research	70
5.10 Recordkeeping Requirements For Retail And Institutional Communications	70
5.11 Advertising And Sales Literature	71
5.11.1 Advertising And Sales Literature Defined.....	71
5.11.2 General Guidelines.....	71
5.11.3 Required Information	72
5.11.4 Approval Prior To Publication	72
5.11.5 Disclosure Of Prices For Recommended Corporate Securities	72
5.11.6 Sales Material Provided By Third Parties	72
5.11.7 SIPC Membership	73
5.11.8 FINRA Membership	74
5.11.9 Telemarketing Scripts.....	74
5.11.10 Special Filing Or Approval Requirements.....	74
5.11.11 Institutional Sales Material.....	76
5.11.12 Records Of Advertising And Sales Literature	76
5.11.13 Options	76
5.11.14 Mutual Funds.....	76
5.11.15 Municipal Securities.....	76
5.11.16 Collateralized Mortgage Obligations (CMOs).....	77
5.11.17 Advertisements Involving Non-Branch Locations	77
5.11.18 Testimonials	77
5.12 Outgoing Correspondence.....	77

5.12.1 Prohibition Against Sending Correspondence From Personal Computers And Other Non-Firm Facilities	77
5.12.2 Review And Approval	77
5.12.3 Content Guidelines	79
5.12.4 Letters And Notes	79
5.12.5 Facsimiles	79
5.13 Incoming Correspondence	80
5.13.1 Review Of Incoming Correspondence	80
5.13.2 Personal Mail	81
5.14 Legends And Footnotes	81
5.15 Internal Communications	81
5.15.1 Inter-Office Communications	81
5.15.2 Internal Use Only	81
5.15.3 Squawk Box, Conference Calls, And Other Internal Communication Systems	81
5.16 Investment Analysis Tools	81
5.16.1 Disclosures	82
5.16.2 Filing Requirements	82
5.17 Complaints	83
5.17.1 Complaint Defined	84
5.17.2 Handling Of Customer Complaints	84
5.17.3 Oral Complaints	84
5.17.4 Complaints Received By Clearing Firm	84
5.17.5 Records Of Complaints	84
5.17.6 Notice To Customers	85
5.17.7 Reporting Of Customer Complaints	85
5.18 Customer Privacy Policies And Procedures	85
5.18.1 Introduction	86
5.18.2 Public vs. Nonpublic Personal Information About Customers	87
5.18.3 Sharing Nonpublic Financial Information	87
5.18.4 Sharing Nonpublic Financial Information	87
5.18.5 Annual Notification	87
5.18.6 Affiliate Marketing	87
5.19 Scripts	88
5.20 Prohibition Against Payments Involving Publications To Influence Market Prices	88
5.21 Pre-recorded Voice Messages And Automatic Telephone Dialing Systems (Autodialers)	89
5.22 Calling (Telemarketing) And Fax Restrictions	89
5.22.1 Introduction	90
5.22.2 Telephone Calls	90
5.22.3 Wireless Communications	90
5.22.4 Outsourcing Telemarketing	90
5.22.5 Unencrypted Consumer Account Numbers	91
5.22.6 Submission Of Billing Information	91
5.22.7 Abandoned Calls	91
5.22.8 Credit Card Laundering	91
5.22.9 Other Prohibited Activities	91
5.22.10 Do Not Call Lists	91
5.22.11 National Do-Not-Call Registry	92
5.22.12 State Restrictions	92
5.22.13 Internal Do Not Call List	92
5.22.14 Facsimile Transmissions	92
5.22.15 Established Business Relationship	93
5.23 Public Appearances	93
5.23.1 General Guidelines	94
5.23.2 Seminars	94
5.23.3 Approval	94
5.23.4 Radio, TV, And Other Extemporaneous Presentations	94
5.23.5 Securities Sold By Prospectus	95
5.23.6 Options	95

5.23.7 Collateralized Mortgage Obligations (CMOs)	95
5.23.8 Mutual Funds	95
5.24 Cold Callers	95
5.24.1 Cold Caller Requirements	95
5.24.2 Permissible Cold Caller Activities	95
5.24.3 Prohibited Cold Caller Activities	95
5.24.4 Telemarketing Restrictions	96
5.24.5 Scripts.....	96
5.25 Electronic Communications	96
5.25.1 Electronic Communications Systems And Devices	96
5.25.2 Education And Training	97
5.25.3 Commercial E-Mail Procedures	97
5.25.4 Instant Messaging	98
5.25.5 Review Of Electronic Communications	99
5.25.6 Advertising	103
5.25.7 Internet	103
5.25.8 Hyperlinks.....	106
5.25.9 Policy Violations	107
5.26 Identification Of Sources.....	108
6 FINANCIAL AND OPERATIONS PROCEDURES	109
6.1 Qualification Of Operations Personnel	109
6.2 Books And Records	109
6.2.1 Introduction	109
6.2.2 Electronic Storage Of Records	109
6.2.3 Availability Of Records In Offices	111
6.3 Calculation And Reporting Of Net Capital	111
6.4 Annual Audit Reports	112
6.5 Reconciliations And Bank Records.....	112
6.6 Designation Of Accountant	112
6.7 Guarantees By, Or Flow Through Benefits For, Members	113
6.8 General Ledger And Suspense Accounts.....	113
6.9 Financial Reporting	114
6.9.1 Preparation Of Financial Reports	114
6.9.2 Disclosure Of Financial Condition	114
6.10 Regulation T And Extension Of Credit To Customers	114
6.10.1 Compliance With Regulation T	115
6.10.2 Customer Margin Balance Report	115
6.11 Fidelity Bonding	115
6.12 Independent Verification Of Assets	115
6.13 Cash Deposits Not Accepted	116
6.14 Cash Equivalents	116
6.15 Risk Management.....	116
6.15.1 Risk Practices Regarding Employment And Employees	117
6.15.2 New Accounts.....	118
6.15.3 Firm Computers And Computerized Data	118
6.15.4 Extension Of Credit	118
6.15.5 Proprietary Accounts	119
6.15.6 New Products	119
6.16 Business Continuity Plan	120
6.16.1 Designation Of Responsibilities.....	120
6.16.2 Retention And Location Of The Plan	121
6.16.3 Implementation Of The Plan.....	121
6.16.4 Emergency Response Team.....	121
6.16.5 Emergency Contact List	122
6.16.6 Alternative Business Locations.....	122
6.16.7 Data Back-Up And Recovery.....	123
6.16.8 Mission Critical Systems.....	123
6.16.9 Financial And Operational Assessments.....	123

6.16.10 Alternative Communications	124
6.16.11 Regulatory Reporting.....	124
6.16.12 Business Constituent, Bank, And Counter-Party Impact.....	124
6.16.13 Other Obligations To Customers	125
6.16.14 Emergency Contact Information	125
6.16.15 Widespread Health Emergencies	126
6.16.16 Education Of Employees	126
6.16.17 Updating, Annual Review, And Testing	126
6.17 Customer Payments For Purchases.....	127
6.17.1 Checks Payable To Clearing Firm.....	127
6.17.2 Guaranteed Accounts.....	127
6.18 Transmittals Of Customer Funds And Securities.....	127
6.18.1 Prepayments And Extensions	128
6.18.2 Employees Authorized To Transmit Customer Assets From Accounts.....	128
6.18.3 Issuing Checks To Customers.....	128
6.18.4 Persons Receiving Assets In Person	128
6.18.5 Transmittals To Third Parties	128
6.18.6 Authorization Records For Negotiable Instruments Drawn From A Customer's Account.....	129
6.18.7 Transmittals To An Alternate Address.....	130
6.18.8 Transmittals To Outside Entities.....	130
6.18.9 Suspicious Or Questionable Activities.....	130
6.19 Safekeeping Of Customer Funds And Securities	130
6.19.1 Introduction.....	130
6.19.2 Exemption From 15c3-3	131
6.20 Customer Confirmations And Statements	131
6.20.1 Customer Statements Only Are Provided To Customers	131
6.20.2 Control Of Blank Confirmations And Statements	131
6.20.3 Change Of Customer Addresses On Accounts	132
6.20.4 Hold Mail Instructions	132
6.20.5 Confirmation Disclosures.....	132
6.20.6 Confirmation Disclosure Of Non-Rated Taxable Debt Securities	133
6.21 Subordination Agreements With Investors	134
6.22 Expense-Sharing Agreements.....	134
6.23 Electronic Delivery And Signatures	134
6.23.1 Electronic Delivery To Customers	134
6.23.2 Electronic Signatures.....	135
6.23.3 FINRA Access	135
6.24 Transfer Of Accounts.....	135
6.25 Solicitation Of Proxies.....	135
6.26 Customer Requests For References	135
6.27 Audit Letters.....	136
6.28 Annual Disclosure Of FINRA BrokerCheck	136
6.29 Carrying Agreements.....	136
6.30 Clearing Firm Exception Reports	137
6.31 Short Interest Report	137
6.32 Electronic Blue Sheets.....	137
6.33 Regulatory Fees And Assessments.....	138
6.34 Regulatory Requests	138
6.34.1 Information Provided Via Portable Media Device	138
6.34.2 INSITE Reporting Requirements	138
6.35 Outsourcing	138
6.36 Protection Of Firm And Customer Systems And Data.....	139
6.36.1 Protection Of Customer Information And Records	141
6.36.2 Control Of Access.....	141
6.36.3 Encryption Of Data	141
6.36.4 Retirement Of Equipment Containing Data	142
6.36.5 Compromised Accounts	142
6.36.6 Employee Training.....	142

7 ANTI-MONEY LAUNDERING (AML) PROGRAM.....	143
7.1 Introduction	143
7.1.1 Definitions.....	143
7.2 AML Compliance Officer	143
7.3 Independent Testing	144
7.4 Training Program	145
7.5 Updates of the PATRIOT Act.....	145
7.6 OFAC List And Blocked Property	146
7.6.1 Prohibited Transactions.....	146
7.6.2 Risk Factors.....	146
7.6.3 Blocking Requirements.....	148
7.6.4 Monitoring Procedures	148
7.6.5 Other Requests To Monitor Accounts	149
7.6.6 Blocking Property And Disbursements	149
7.6.7 Reporting Blocked Property And Legal Actions.....	149
7.6.8 Role Of Operations Personnel.....	149
7.7 Currency Reporting Requirements	150
7.7.1 Transactions Involving Currency Over \$10,000	150
7.7.2 Transactions Involving Currency Or Bearer Instruments Over \$10,000 Transferred Into Or Outside The U.S.	150
7.7.3 State Reporting Requirements	150
7.8 Foreign Financial Account Reporting Requirements And Recordkeeping (FBAR).....	150
7.9 Recordkeeping Requirements (Joint Rule and Travel Rule)	151
7.9.1 Fund Transfers And Transmittals	151
7.9.2 Other Recordkeeping Requirements	152
7.10 Detecting Potential Money Laundering.....	152
7.10.1 Clearing Firm AML Procedures	153
7.10.2 Foreign Currency Transactions	153
7.11 Information Sharing Between Financial Institutions	153
7.12 Suspicious Activity Reports (SARs).....	154
7.12.1 Identifying Potential Suspicious Activity	154
7.12.2 When A Report Must Be Filed.....	155
7.12.3 Filing A Report And Emergency Notification	155
7.12.4 Retention Of Records.....	156
7.12.5 Providing SARs Information To SROs.....	156
7.12.6 Prohibition Against Disclosure.....	156
7.13 Requests And Written Notices From Regulators, Enforcement Agencies, And Other Authorized Persons	156
7.13.1 Federal Banking Agency Requests -- 120-Hour Rule	156
7.13.2 Information Sharing With Enforcement Agencies.....	157
7.13.3 National Security Letters	157
7.13.4 Grand Jury Subpoenas.....	158
7.13.5 Foreign Bank Correspondent Accounts.....	158
7.13.6 Requests By Law Enforcement To Maintain Accounts.....	158
7.14 Customer Identification Program (CIP).....	159
7.14.1 Other Financial Institutions Providing CIP Services	159
7.14.2 Accounts Requiring Approval By The AML Compliance Officer	159
7.14.3 Customer Due Diligence.....	160
7.14.4 CIP Records	164
7.14.5 Comparison With Government Lists.....	164
7.15 Identity Theft Prevention Program (FTC FACT Act Red Flags Rule)	165
7.15.1 Introduction.....	166
7.15.2 Establishment, Administration, And Updates Of The ITPP	167
7.15.3 Red Flags	167
7.15.4 Identifying And Responding To Red Flags	168
7.15.5 Compromised Accounts	170
7.16 Due Diligence For Correspondent And Private Banking Accounts	171
7.16.1 Definitions.....	172

7.16.2 Due Diligence For Correspondent Accounts For Foreign Financial Institutions	173
7.16.3 Due Diligence For Private Banking Accounts	175
7.16.4 Enhanced Scrutiny For Accounts Of Senior Foreign Political Figures	176
7.17 Shell Companies	176
8 INSIDER TRADING	178
8.1 Insider Trading Policies And Procedures	179
8.2 Prohibition Against Acting On Or Disclosing Inside Information	179
8.3 Tippees Are Insiders	179
8.4 Misuse Constitutes Fraud	179
8.5 Annual Certification	179
8.6 Firm Policy Memorandum Regarding Insider Trading	180
8.7 Employee, Employee-Related, And Proprietary Trading	182
8.8 Information Barrier Procedures	183
8.8.1 Introduction	183
8.8.2 Departments Subject To Information Barrier Confidentiality Procedures	184
8.8.3 Confidentiality Procedures	184
8.8.4 Access To Confidential Information Limited To Certain Employees	184
8.8.5 Bringing An Employee Over the Wall	184
8.8.6 Notification To Compliance	185
8.8.7 Monitoring The Information Barrier	185
8.8.8 Certification By Affected Employees	185
8.8.9 Education And Training Of Employees	185
8.9 Watch List	185
8.10 Restricted List	186
8.11 10b5-1 Plans	187
9 ACCOUNTS	189
9.1 New Accounts	189
9.1.1 Designation Of Accounts	189
9.1.2 Master Accounts And Sub-Accounts	189
9.1.3 Customer Due Diligence - AML Program	191
9.1.4 Identity Theft (FACT Act Red Flags Rule)	195
9.1.5 SIPC Disclosure	199
9.1.6 Approval	199
9.1.7 Customer Account Information	200
9.1.8 Addresses On Customer Accounts	200
9.1.9 Account Documents	201
9.1.10 Predispute Arbitration Agreements With Customers	201
9.1.11 Revisions To Customer Agreements	201
9.1.12 Accounts Requiring Notification To Customer's Employer	201
9.1.13 Post Office Addresses	202
9.1.14 Unacceptable Accounts	202
9.2 Transferring Accounts	203
9.2.1 Accounts Transferring In	203
9.2.2 Accounts Transferring Out	203
9.3 Accounts And Securities Subject To Blocking	203
9.4 Updating Account Information And Periodic Affirmation	203
9.5 Customer Account Sweeps To Banks	204
9.6 Margin Accounts	205
9.6.1 Opening Margin Accounts	205
9.6.2 Employee Accounts	205
9.6.3 Disclosures	205
9.6.4 Equal Credit Opportunity Act Requirements	206
9.6.5 Arranging Credit	206
9.6.6 Suitability	206
9.6.7 Margin Requirements	206
9.6.8 New Issues	206
9.6.9 Credit On Restricted Securities	206
9.6.10 Fiduciary Accounts	206

9.6.11 Portfolio Margin Accounts.....	207
9.7 Third Party Accounts	207
9.8 Discretion For Orders And Accounts	207
9.9 Accounts For Minors.....	208
9.10 Accounts For Senior Investors.....	208
9.10.1 General Requirements	209
9.10.2 Opening Accounts For Senior Investors.....	209
9.10.3 Recommendations To Senior Investors	209
9.10.4 Diminished Mental Capacity	210
9.10.5 Potential Indication Of Elder Financial Exploitation	210
9.10.6 Escalating Issues Involving Senior Investors	211
9.10.7 Use Of Titles Inferring Expertise.....	211
9.10.8 Reverse Mortgages	212
9.10.9 Luncheon Programs And Seminars.....	213
9.10.10 Advertising Targeting Seniors	214
9.11 Incompetent Persons.....	214
9.12 Trust Accounts.....	214
9.13 Correspondent And Private Banking Accounts And Accounts For Senior Foreign Political Figures.....	214
9.13.1 Summary Of Requirements	214
9.13.2 Definitions.....	214
9.13.3 Prohibition Against Correspondent Accounts For Foreign Shell Banks	215
9.13.4 Foreign Bank Certification	216
9.13.5 Accounts For Foreign Political Figures.....	216
9.14 Pension And Retirement Accounts	216
9.14.1 Employee Retirement Income Security Act (ERISA).....	216
9.14.2 General Guidelines When Offering Retirement Plans	220
9.14.3 Individual Retirement Accounts (IRAs).....	220
9.14.4 Employer-Sponsored Plans.....	221
9.15 Foreign Accounts	223
9.16 Death Of A Customer	223
9.17 Customer Portfolio And Cross-Reference Records	223
10 ORDERS.....	224
10.1 Acceptance And Prompt Entry Of Orders	224
10.2 Orders Requiring Approval	224
10.3 Solicited And Unsolicited Orders	225
10.3.1 Definition Of Solicited Order	225
10.3.2 Solicited Orders Should Be Indicated.....	225
10.3.3 Prohibited Solicitations	226
10.4 Suitability Of Recommendations.....	226
10.4.1 General Requirements	227
10.4.2 Automated Investment Advice.....	229
10.4.3 Non-Conventional Investments (NCIs).....	230
10.4.4 Institutional Accounts.....	231
10.4.5 Recommendations Of OTC Equity Securities	231
10.4.6 Investing Liquefied Home Equity	233
10.4.7 Proprietary Products.....	233
10.5 Fair Prices.....	234
10.5.1 Commissions	234
10.5.2 Mark-Ups And Mark-Downs	234
10.5.3 Prohibition Against Trading Ahead Of Customer Orders.....	235
10.5.4 Best Execution.....	236
10.6 Regulation NMS.....	238
10.6.1 Key Definitions.....	238
10.6.2 Trade-Throughs.....	239
10.6.3 Best Execution.....	240
10.6.4 Intermarket Sweep Orders (ISOs).....	240
10.6.5 Third-Party Vendors	240

10.7 Orders In Volatile Stocks	241
10.8 Account Designation And Cancels/Rebills	241
10.8.1 Allocation Of Investment Adviser Orders	242
10.9 Time And Price Discretion	242
10.10 Trading Halts	242
10.11 Trade Reporting By Third Parties	243
10.12 Trading Systems And Electronic Transmission Of Orders	243
10.13 Order Records	244
10.14 Large Trader Reporting	245
10.14.1 Large Trader Definition	246
10.14.2 Identifying Activity Level	246
10.14.3 Large Trader Identification Number (LTID)	246
10.14.4 Filings	247
10.14.5 Records (DELAYED)	247
10.15 Conflicts Of Interest	247
10.15.1 Adverse Interest	247
10.15.2 Precedence Of Customer Orders	248
10.15.3 Disclosure Of Control Relationship	248
10.16 Review Of Customer Transactions	249
10.16.1 Review Of Daily Transactions	249
10.16.2 Unauthorized Transactions	249
10.16.3 Review Of Transactions For Excessive Commissions	250
10.16.4 Review Of Account Activity By Designated Supervisors	250
10.16.5 Review Of Account Activity By Compliance	251
10.17 Trade Errors	251
10.18 Sellouts	251
10.19 Time Clock Synchronization	252
10.20 Issuer Repurchases Of Common Stock	252
10.21 Blue Sky Of Securities	253
10.21.1 General Requirements	254
10.22 Exchange-Listed Index Warrants, Currency Warrants And Currency Index Warrants	254
10.23 Auction Rate Securities	255
10.23.1 Allocations	255
10.24 Security Futures	255
10.24.1 Registration Requirements	256
10.25 Certificates Of Deposit	256
10.25.1 General Sales Guidelines	257
10.25.2 Special Characteristics Of CDs	257
10.25.3 Disclosures When Selling Brokered CDs	257
10.25.4 Market Index/Linked CDs	258
10.25.5 Account Statements	258
10.26 Cash Alternatives	258
10.27 Real Estate Investment Trusts (REITs)	260
10.27.1 General Sales Guidelines	260
10.27.2 Guidelines For New Issue REITs	260
10.27.3 Private And Non-traded REITs	260
10.28 Callable Common Stock	261
10.29 Promissory Notes	261
10.30 Direct Participation Programs (DPPs)	261
10.31 Complex Products	262
10.31.1 Approval Of The Product	262
10.31.2 Knowledge Of The Product	262
10.31.3 Suitability Of Recommendations	262
10.31.4 Other Requirements	263
10.31.5 Examples Of Complex Products	263
10.31.6 Risk Disclosure	264
10.31.7 Risk Disclosure	264
10.31.8 Fees And Costs	265

10.31.9 Post-Trade Information.....	265
10.31.10 Features And Risks Of Structured Products.....	265
10.31.11 Principal-Protected Notes (PPNs)	265
10.31.12 Reverse Convertibles	266
10.31.13 Exchange Traded Notes (ETNs)	267
10.31.14 Training.....	267
10.32 Structured Products	268
10.32.1 Due Diligence	269
10.32.2 Public Communications	269
10.32.3 Eligible Accounts	270
10.32.4 Suitability	270
10.33 Short Sales	270
10.33.1 Key Defined Terms.....	271
10.33.2 Short Sale Price Test.....	272
10.33.3 Marking Orders.....	273
10.33.4 Locate And Delivery Requirements.....	273
10.33.5 Close-Out Requirements For Fail To Deliver	274
10.33.6 Short Sales Of Securities Subject To A Public Offering	274
10.34 Sale Of Control Or Restricted Stock	275
10.34.1 Introduction.....	276
10.34.2 Restricted Securities Defined	276
10.34.3 Affiliate Defined	276
10.34.4 Control Person And Control Securities.....	276
10.34.5 Holding Period.....	276
10.34.6 Limitations On Amount Sold	276
10.34.7 Filing Requirements.....	276
10.34.8 New Account Information Regarding Affiliates	277
10.34.9 Lending And Option Writing On Control And Restricted Securities.....	277
10.35 Unregistered Resales Of Restricted Securities	277
10.36 Reporting Of Insider Transactions	278
10.36.1 Reporting Of Insider Transactions.....	279
10.37 Penny Stocks.....	279
10.37.1 General Requirements	280
10.37.2 Penny Stock Defined	281
10.37.3 Established Customer Defined	281
10.37.4 Suitability Information	281
10.37.5 Risk Disclosure Document	281
10.37.6 Two-Business-Day Waiting Period	282
10.37.7 Disclosure Of Quotations And Other Information	282
10.37.8 Disclosure Of Compensation.....	282
10.38 Sales To Military Personnel On Military Installations.....	282
10.39 Tax Switching Transactions.....	283
10.40 Extended Hours Trading.....	283
10.41 Order Audit Trail System (OATS)	284
10.41.1 Reporting Member Exclusion	284
10.42 Order Routing And Reporting	284
10.42.1 Disclosure Of Order Routing	284
10.42.2 Orders Covered By The Rule	285
10.42.3 Information Included In The Reports	285
10.42.4 Customer Requests For Order Routing Information.....	285
10.43 Distribution, Consolidation, And Display Of Information	285
10.44 Sales Contests.....	286
10.44.1 Introduction.....	286
10.44.2 General Guidelines.....	286
10.45 Cash And Non-Cash Compensation Policy	286
10.45.1 Definitions.....	287
10.45.2 Approval	287
10.45.3 Types Of Permissible Non-Cash Compensation	287

10.46 Prohibited Transactions And Practices	288
10.46.1 Introduction	288
10.46.2 Unauthorized Trading	288
10.46.3 Market Manipulation	289
10.46.4 Prearranged Trading	289
10.46.5 Adjusted Trading	289
10.46.6 Overtrading Or Undertrading	289
10.46.7 Wash Transactions	289
10.46.8 Cross Transactions	289
10.46.9 Orders At The Opening Or Close	290
10.46.10 Parking Securities	290
10.46.11 Churning	290
10.46.12 Prohibition Against Acting On Knowledge Of Other Orders	290
10.46.13 Trade Shredding	290
11 SUPERVISORY SYSTEM, PROCEDURES, AND CONTROLS	291
11.1 Introduction	291
11.2 Responsibility	291
11.3 Controls	292
11.3.1 Verification And Testing	292
11.3.2 Risk Management	292
11.3.3 Outside Auditors	292
11.4 Written Compliance And Supervisory Procedures (WSP)	293
11.5 Chief Compliance Officer (CCO)	293
11.6 Annual Certification Of Compliance And Supervisory Processes	293
11.6.1 Meetings Between CEO And CCO	293
11.6.2 Annual Report To CEO	293
11.7 Supervision Of Producing Managers' Customer Account Activity	294
11.7.1 Designation Of Supervisors	295
11.7.2 Reviews To Be Conducted	295
11.7.3 Heightened Supervision	295
11.8 Cross Reference To Other Supervisory Control Subjects	295
12 OFFICES	297
12.1 Office Designations	297
12.1.1 Offices Of Supervisory Jurisdiction (OSJ)	297
12.1.2 Branch Offices Assigned To OSJs	297
12.1.3 Non-Branch Business Locations	297
12.2 Supervision Of Producing Managers	298
12.3 Primary Residence Offices	298
12.4 Use Of Office Space By Others	299
12.5 Office Records	299
12.5.1 Retention Of Records At The Office	300
12.5.2 Forwarding Records To Home Office	300
12.5.3 Access To Records	300
12.5.4 Regulatory Requests For Records	300
12.6 Changes In Branch Offices	300
12.7 Closing Offices	301
12.8 Office Inspections	301
12.8.1 Inspection Cycle	301
12.8.2 Risk-Based Reviews	302
12.8.3 Conducting Inspections	302
12.8.4 Heightened Inspection Requirements	302
12.8.5 Reports	303
12.9 Display Of Certificates	304
12.10 Availability Of Rules	304
13 CORPORATE FIXED INCOME SALES AND TRADING	305
13.1 Fair Prices	305
13.2 Best Execution	305
13.3 Mark-Ups And Mark-Downs	306

13.3.1 Contemporaneous Cost (Or Sale Proceeds) And Overriding Events	307
13.3.2 Hierarchy Pricing Factors	307
13.3.3 Pricing Information From Similar Securities	307
13.3.4 Pricing Information From Economic Models	308
13.3.5 Qualified Institutional Buyer (QIB) Exemption	308
13.4 Commissions On Agency Transactions	308
13.5 Crossing OTC Bonds	308
13.6 Errors	309
13.7 Cancels And Rebills	309
13.8 Extended Settlements; Delayed Deliveries	309
13.9 Market Access	309
13.9.1 Definitions	310
13.9.2 Risk Management Controls	310
13.9.3 Sponsored Access	311
13.10 Traders' Personal Accounts	313
13.11 TRACE	313
13.11.1 TRACE Eligible Securities And Reportable Transactions	314
13.11.2 Transaction Reporting	314
13.11.3 System Outages	315
13.11.4 Procedures For Clock Synchronization	316
13.12 Prohibited Activities	316
13.12.1 Inside Information	317
13.12.2 Financial Arrangements	317
13.12.3 Market Manipulation	317
13.12.4 Frontrunning	317
13.12.5 Parking Securities	317
13.12.6 Secret Profits	317
13.12.7 Adjusted Trading	317
13.13 Review Of Transactions	318
13.14 High Yield Debt Securities	318
13.14.1 Suitability	318
13.14.2 Underwriting And Investment Banking	318
13.14.3 Research	318
13.14.4 Creditors' Committee	319
14 INVESTMENT BANKING	320
14.1 Introduction	320
14.2 Information Barrier and Confidentiality Issues	320
14.2.1 Information Barrier Procedures	320
14.2.2 Origination Process And Information Sharing	320
14.3 Restricted And Watch Lists	321
14.3.1 Watch List	321
14.3.2 Restricted List	322
14.4 Investment Banker Personal Investments	323
14.5 Licensing And Registration	324
14.6 Gifts And Entertainment	324
14.7 Participation In Compliance Meetings, Continuing Education, And Internal Audits/Reviews	324
14.8 Inquiries And Investigations	325
14.9 Anti-Money Laundering (AML)	325
14.10 Communications	325
14.10.1 Prohibited Communications Between Bankers And Customers	326
14.10.2 Communication With Other Business Units	326
14.10.3 Public Side Employees (Sales and Trading, etc.)	326
14.10.4 Interactions Between Research Analysts And Investment Bankers	327
14.10.5 Emerging Growth Companies (EGCs)	331
14.11 Prohibition Against Offering Favorable Research To Induce Investment Banking Business	332
14.12 New Issues	333
14.13 New Product Approval Process	334
14.14 Pitch Materials	334

14.14.1 Definition.....	334
14.14.2 Approval Of Pitch Materials.....	334
14.14.3 Other Disclosures And Guidelines.....	335
14.14.4 Pitch Materials - Non-Permissible Items.....	335
14.14.5 Document Retention.....	335
14.15 Underwriting Approval	335
14.16 Fairness Opinions.....	336
14.16.1 Disclosures.....	337
14.16.2 Approval	337
14.17 Origination, Record Retention, Closed Deal Files	338
14.17.1 Due Diligence	338
14.17.2 Investment Banking's Responsibility	338
14.17.3 Required Document Retention	338
14.17.4 M&A Closed Deal Files.....	338
15 MUTUAL FUNDS	340
15.1 Introduction	340
15.2 Mutual Funds Offered By The Firm	340
15.2.1 Dealer Agreements.....	341
15.2.2 Anti-Reciprocal Rule.....	341
15.3 Sales Charges	342
15.3.1 Breakpoints.....	343
15.3.2 Letters Of Intent.....	344
15.3.3 Rights Of Accumulation	345
15.3.4 Reinstatement Privilege.....	345
15.3.5 Sales Charge Reductions/Waiver Or NAV Transfer Program	345
15.3.6 Deferred Sales Charges.....	345
15.3.7 Direct Application And Wire Order Accounts.....	345
15.3.8 Sales Charge Discounts Must Be Marked On Mutual Fund Orders	346
15.4 Switching	346
15.5 Market Timing Transactions	346
15.6 Selling Dividends	347
15.7 Misrepresenting No-Load Funds	347
15.8 Reinvestment Of Maturing Certificates Of Deposit In Mutual Funds	347
15.9 Suitability	347
15.9.1 Multi-Class Mutual Funds.....	348
15.9.2 Considerations For Newly-Hired RRs.....	349
15.10 Late Trading And Market Timing	350
15.11 Block Letter Restrictions	351
15.12 Correspondence	351
15.13 Disclosure Of Material Facts.....	352
15.14 Disclosure Of Fees, Expenses And Performance	352
15.15 Prospectuses	353
15.16 Advertising And Sales Literature	353
15.17 Sales Material Provided By Third Parties	353
15.18 Dealer-Use-Only Material	354
15.19 Seminars And Other Public Presentations	354
15.20 Sales Contests And Incentive Programs	355
15.21 Prompt Transmission Of Applications And Payments	355
15.22 Redemption Of Outside Funds	356
15.23 Closed-End Funds	356
15.23.1 Business Development Companies (BDCs).....	357
15.24 Leveraged Loan Products.....	357
15.25 Unit Investment Trusts (UITs).....	358
15.25.1 Suitability	358
15.25.2 Sales Charges.....	358
15.25.3 Primary Offerings.....	358
15.25.4 Secondary Market Transactions.....	359
15.26 Funds Of Hedge Funds	359

15.26.1 Characteristics And Risks Of Hedge Funds	359
15.27 Exchange-Traded Funds (ETFs)	359
15.27.1 Customer Disclosures For Pre- And Post-Market Sessions	361
16 OPTIONS	362
16.1 Option Registration	362
16.2 Supervision Of Option Activities	362
16.3 Opening Option Accounts	362
16.3.1 Option Agreements And Approval Of Option Accounts	362
16.3.2 Uncovered Short Options	363
16.3.3 Option Disclosure Document (ODD)	364
16.3.4 Fiduciary Accounts	365
16.4 Option Orders	365
16.4.1 Suitability Of Option Transactions	365
16.4.2 Review Of Option Orders And Accounts	365
16.4.3 Prohibited Transactions	366
16.4.4 Disclosure Of Option Order Routing	366
16.5 Option Programs	366
16.6 Option Operations Procedures	367
16.6.1 Reporting Positions	367
16.6.2 Position Limits	368
16.6.3 Liquidation Of Positions And Restrictions On Access	368
16.6.4 Exercise Of Options	368
16.6.5 Adjustments In Terms Of Options	369
16.6.6 Branch Copies Of Account Information And Statements	369
16.7 Option Complaints	370
16.8 Option Communications With The Public	370
16.8.1 Definitions	371
16.8.2 Option Content Standards	371
16.8.3 Correspondence	372
16.8.4 Communications Regarding Standardized Options Prior To Delivery Of The ODD	372
16.8.5 Seminars And Public Presentations	373
16.8.6 Filing Requirements	373
16.9 OTC Options (Non-Standardized Options)	374
16.10 Discretionary Options Accounts	374
17 MUNICIPAL SECURITIES	376
17.1 Administration And Operations	376
17.1.1 Fees And Assessments	376
17.1.2 Municipal Securities Representatives	376
17.1.3 Municipal Securities Sales Limited Representative	376
17.1.4 Apprentices	376
17.1.5 Municipal Securities Sales Supervisors	377
17.1.6 Municipal Securities Principals	377
17.1.7 Financial And Operations Principal	377
17.1.8 General Securities Principals (Series 24)	377
17.1.9 Non-Registered Employees	377
17.1.10 Offices	378
17.1.11 Notifications To MSRB	378
17.1.12 Anti-Money Laundering Program	378
17.1.13 Fidelity Bonding Requirements	378
17.1.14 Books And Records	378
17.1.15 Confirmations	379
17.1.16 Control Relationships	379
17.1.17 Disclosure Of Interest In Distribution	380
17.1.18 Reciprocal Dealings	380
17.1.19 Use Of Ownership Information	380
17.1.20 Customer Account Transfers	380
17.1.21 Transactions For Employees Of Other Municipal Dealers	380
17.1.22 Written Supervisory Procedures	381

17.1.23 Electronic Mail Contact.....	381
17.2 Sales Of Municipal Securities	381
17.2.1 Conduct Of Municipal Securities Business.....	381
17.2.2 Suitability	381
17.2.3 Minimum Denominations	383
17.2.4 Disclosures	383
17.2.5 Customer Accounts	384
17.2.6 Complaints.....	384
17.2.7 MSRB Rules	385
17.2.8 529 College Savings Plans (Municipal Fund Securities)	385
17.3 Sponsoring Meetings And Conferences Involving Issuer Officials	389
17.4 Communications With The Public.....	390
17.4.1 Performance Data	390
17.5 Telemarketing	390
17.6 Advertising And Sales Literature	390
17.7 Supervisory System, Procedures And Controls.....	391
17.8 Underwriting.....	391
17.8.1 Due Diligence	392
17.8.2 Commitment Approval.....	392
17.8.3 Duties Of Underwriters To Issuers	393
17.8.4 Issuer Continuing Disclosures.....	399
17.8.5 CUSIP Numbers	400
17.8.6 Underwriter Registration.....	400
17.8.7 Limited Use Of NRO Designation.....	401
17.8.8 Expenses In Connection With New Issues.....	401
17.8.9 New Issue Sales During The Underwriting Period	401
17.8.10 Private Placements.....	401
17.8.11 Recordkeeping	402
17.8.12 Official Statements	402
17.8.13 Short-term Obligation Rate Transparency (SHORT) System.....	405
17.8.14 Syndicate Practices	406
17.9 Direct Purchases And Bank Loans	410
17.10 Financial Advisor Activities	411
17.10.1 Financial Advisory Relationship Defined	411
17.10.2 Professional Qualifications	411
17.10.3 Written Agreements.....	411
17.10.4 Prohibition Against Underwriting Or Placement Activities	411
17.10.5 Official Statements	412
17.10.6 Advanced Refunded Securities	412
17.10.7 Recordkeeping	413
17.11 Solicitation Of Municipal Securities Business	413
17.12 Broker's Brokers	413
17.12.1 Disclosures	414
17.12.2 Bid-Wanted.....	415
17.12.3 Compensation	415
17.12.4 Prohibitions.....	415
17.13 Trading And Handling Customer Orders	416
17.13.1 Quotations	416
17.13.2 Fair Prices	416
17.13.3 Minimum Denominations	416
17.13.4 Official Statements	417
17.13.5 Records Of Orders	417
17.13.6 Mark-Ups And Mark-Downs	417
17.13.7 Commissions On Agency Transactions.....	418
17.13.8 Reports Of Transactions.....	418
17.13.9 Inventory Positions	419
17.13.10 Errors.....	420
17.13.11 Cancels And Rebills	420

17.13.12 Traders' Personal Accounts	420
17.13.13 Prohibited Activities	420
17.14 Gifts	421
17.14.1 Introduction.....	422
17.14.2 Sales Contests	422
17.15 Political Contributions	422
17.15.1 Introduction.....	423
17.15.2 Summary Of Key Requirements.....	423
17.15.3 Definition Of Municipal Securities Business	424
17.15.4 Definition Of Municipal Finance Professional	424
17.15.5 Definition Of Non-MFP Executive Officer	424
17.15.6 Types Of Contributions Included	424
17.15.7 Contributions Subject To Political Contribution Limitations And Reporting	425
17.15.8 Look-Back And Look-Forward Provisions	425
17.15.9 Political Action Committees (PACs)	425
17.15.10 Approval	427
17.15.11 Prohibited Solicitations And Activities.....	427
17.15.12 G-37 Records To Be Maintained By The Firm	427
17.15.13 Quarterly Report.....	428
18 GOVERNMENT SECURITIES.....	429
18.1 Government Securities Act Amendments Of 1993	429
18.1.1 Sections 102, 105, and 106 - Rulemaking Authority	429
18.1.2 Section 103 - Transaction Records	429
18.1.3 Section 104 - Large Position Reporting.....	429
18.1.4 Section 107 - Market Information	429
18.2 Sales.....	429
18.3 Government Sponsored Enterprise (GSE) Distributions	430
18.3.1 Definitions.....	430
18.3.2 Master Agreements	431
18.3.3 Delivery Of Offering Materials	431
18.3.4 Order Records.....	431
18.3.5 No Assurance Of Execution	432
18.3.6 Distribution Report.....	432
18.3.7 Single Class TBAs.....	432
18.4 Trading.....	432
18.4.1 Fair Prices	432
18.4.2 Mark-Ups And Mark-Downs	432
18.4.3 Commissions On Agency Transactions.....	432
18.4.4 Inventory Positions	432
18.4.5 Review Of Transactions	433
18.5 Transaction Records.....	433
18.6 Large Position Reporting	433
18.7 Prohibited Activities	433
18.7.1 Inside Information.....	433
18.7.2 Financial Arrangements.....	433
18.7.3 Market Manipulation	433
18.7.4 Parking Securities.....	433
18.7.5 Secret Profits	433
18.7.6 Adjusted Trading	434
19 COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs).....	435
19.1 Introduction	435
19.2 Characteristics And Risks	435
19.2.1 Interest Only Securities (IOs)	435
19.2.2 Principal Only Securities (POs)	435
19.2.3 Floating Rate Tranches (Floaters) and Inverse Floaters	436
19.2.4 Accrual Bonds Or Z-Tranches.....	436
19.3 Suitability	436
19.4 Ginnie Mae REMICs	437

19.5 Required Education Material	437
19.6 Inverse Floaters, IOs, POs Disclosure	437
19.7 Communications With The Public	437
19.7.1 Bids.....	437
19.7.2 Disclosures	437
19.7.3 Radio/Television Advertisements	438
19.7.4 Bloomberg And Other Financial Services.....	438
19.8 Trading.....	438
19.8.1 Fair Prices	438
19.8.2 Mark-Ups And Mark-Downs	438
19.8.3 Commissions On Agency Transactions.....	438
19.8.4 Inventory Positions	439
19.8.5 Errors.....	439
19.8.6 Cancels And Rebills	439
19.8.7 Traders' Personal Accounts	439
19.9 Prohibited Activities	439
19.9.1 Inside Information	439
19.9.2 Financial Arrangements.....	439
19.9.3 Market Manipulation	439
19.9.4 Parking Securities.....	439
19.9.5 Secret Profits	440
19.9.6 Adjusted Trading	440
19.10 Review Of Transactions.....	440
19.11 Confirmations.....	440
20 INDEPENDENT CONTRACTORS.....	441
20.1 Independent Contractor Defined.....	441
20.2 Supervision	441
20.3 Agreements	441
20.4 Use And Display Of The Firm's Name	441
20.5 Display Of SIPC Symbol	441
20.6 Use Of Other Names	441
20.7 ICs As Investment Advisers.....	442
20.8 Outside Business Activities And Outside Accounts	442
20.9 Exempt Insurance Products And Equity-Indexed Annuities	442

INTRODUCTION

Risk Disclosure Statement

[FINRA Information Notice 'August 2010 Supplement to the Security Futures Risk Disclosure Statement' September 7, 2010; FINRA Rule 2370(b)(11)(A)]

The security futures risk disclosure statement must be provided to the customer at or prior to the time the customer's account is approved for trading security futures. New or revised statements will be provided through a mass mailing to customers who already received the statement or no later than the time a security futures transaction confirmation is provided to approved customers. Statements may also be provided electronically or through the use of a hyperlink in accordance with SEC electronic delivery requirements.

Commodity Futures-Linked Securities

[FINRA Regulatory Notice 10-51]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Available reports
Frequency	<ul style="list-style-type: none">• Training: when a new product is introduced and ongoing• Review of orders: Daily, when trades occur• Review of communications: Daily
Action	<ul style="list-style-type: none">• Provide training including features and risks of the security and how to inform customers when selling the securities• Review transactions for suitability, take corrective action when necessary which may include contact with the RR, the customer, and/or Compliance• Review communications regarding securities to confirm accuracy and completeness of descriptions of features and risks
Record	<ul style="list-style-type: none">• Records of training• Records of communications• Records of order review• Records of corrective action taken regarding communications and/or orders

Commodity futures-linked securities use futures contracts to track an underlying commodity or commodity index. The security will typically roll its position before the contract's expiration and can face differing prices between the contract it sells and the new contract - for more distant delivery - that it buys. The difference is called the roll yield. There are different methodologies for achieving investment objectives, and some may not employ strategies that address roll yield. Some invest in a single futures contract while others invest in multiple contracts. Others track indices in an attempt to optimize roll yield by minimizing the impact of contango (an upward sloping forward curve [as in the normal yield curve]). Such a forward curve is said to be "in contango" [or sometimes "contangoed"]) or maximizing the impact of backwardation (a downward sloping forward curve [as in an inverted yield

curve)). FINRA Regulatory Notice 10-51 should be reviewed for a more complete description of commodity futures-linked securities.

As with all recommendations, the RR must understand the security being recommended and ascertain that the investment is suitable for the customer. The RR is obligated to discuss with a retail investor the following features:

- the commodity, basket of commodities or commodities index that a given product tracks;
- the product's goals, strategy and structure;
- that commodities prices, and the performance of commodity futures-linked securities, can be volatile;
- the use of futures contracts can affect the performance of the product as compared to the performance of the underlying commodity or index;
- the product's methodology, including its strategy, if any, for managing roll yield and other factors that may affect performance; and
- the product's tax implications. (Commodity pools have different tax implications than mutual funds or exchange-traded notes.)

[FINRA Rule 2360]

This chapter outlines requirements when offering options to customers. Key requirements include the following:

- RRs and supervisors must be registered to sell and supervise options.
- Customers must submit an option agreement, and accounts must be approved for options trading levels.
- Writing uncovered options requires a separate disclosure and approval.
- Customers will be provided with a standard options disclosure document when option trading is approved.
- Customers are subject to position limits and methods of exercise disclosed in the agreement.
- Options communications require inclusion of the special risks associated with options.
- Compliance must approve discretionary accounts that will trade options.

SAMCO Capital Markets, Inc. (SAMCO) will conduct its business consistent with the highest standards of commercial honor and just and equitable principles of trade. Keeping our customers' interest foremost is key to SAMCO's success. The trust of our customers and SAMCO's reputation are of paramount importance. Effective supervision is an integral part of achieving our goals in serving our customers.

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

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

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

Supervision may be delegated to others, where appropriate; however, designated supervisors are responsible for ultimate supervision of assigned areas. The term "employee" as used in this manual

includes RRs (and others as identified by SAMCO) who may be independent contractors for tax and compensation purposes.

This manual is the property of SAMCO Capital Markets, Inc. (SAMCO) and may not be provided to anyone outside the Firm without the permission of Compliance or the Firm's counsel.

1 DESIGNATION OF SUPERVISORS AND OFFICES

Designation Of Supervisors

[NASD Rule 3010]

This section includes SAMCO's designated supervisors responsible for supervision of the areas of business indicated.

Date: January 31, 2008

Area/Department Supervised	Name/Title/Location of Supervisor	Registration Status	Effective Date of Supervision
Executive Representative	Joe Mannes / COO, ROSFP / Dallas	4, 7, 24, 53, 55, 63, 65, 86, 87	10/17/2005
Chief Operating Officer "COO"	Joe Mannes / COO, ROSFP / Dallas	4, 7, 24, 53, 55, 63, 65, 86, 87	10/17/2005
Chief Compliance Officer "CCO"	Lee Maverick / AML, CCO, ROSFP / Austin	4, 7, 24, 53, 55, 63	10/01/2007
Financial Operations Principal "FINOP"	Doran Bradberry / FINOP / Austin	4, 7, 9, 10, 24, 27, 53, 63, 65	05/12/2008
Anti-Money Laundering Compliance Officer "AML"	Lee Maverick / AML, CCO, ROSFP / Austin	4, 7, 24, 53, 55, 63	10/01/2007
Registered Options and Security Futures Principal "ROSFP"	Joe Mannes / COO, ROSFP / Dallas	4, 7, 24, 53, 55, 63, 65, 86, 87	10/17/2005
Registered Options and Security Futures Principal "ROSFP"	Lee Maverick / AML, CCO, ROSFP / Austin	4, 7, 24, 53, 55, 63	10/01/2007
Branch Manager "Manager"	See list in section 1.2 "Designation of Offices"	See list in section 1.2 "Designation of Offices"	See list in section 1.2 "Designation of Offices"
Establish Policies and Procedures	COO, CCO,	see above	see above

CRD Electronic Filings	CCO	see above	see above
Outside Business Activity	CCO, Manager	see above	see above
Private Securities Transactions	CCO, Manager	see above	see above
Employee and Employee Related Accounts	CCO, Manager	see above	see above
Gifts, Gratuities, Entertainment	CCO, Manager	see above	see above
Charitable Contributions	COO	see above	see above
Media Contact	COO	see above	see above
Requests for Information from Outside Sources	COO, CCO	see above	see above
Internal Reviews and Investigations	COO, CCO	see above	see above
Internal Disciplinary Actions	COO, CCO	see above	see above
Anti-Money Laundering	AML	see above	see above
Emergency Business Recovery Procedures	CCO	see above	see above
Prohibited Activities	CCO, Manager	see above	see above
Electronic Communications Policy	CCO	see above	see above
Advertising and Publishing Activities	CCO	see above	see above

Annual RR Certification	CCO	see above	see above
Annual Compliance Meeting	CCO	see above	see above
Continuing Education	CCO	see above	see above
Employment	COO, CCO, Manager	see above	see above
Registration and Licensing	CCO	see above	see above
Statutorily Disqualified Persons	COO	see above	see above
Broker Dealer Registration	CCO	see above	see above
Heightened Supervision	COO	see above	see above
Advertising and Sales Literature	CCO	see above	see above
Outgoing Correspondence	Manager, CCO	see above	see above
Incoming Correspondence	Manager, CCO	see above	see above
Internal Communications	Manager	see above	see above
Complaints	Manager, CCO	see above	see above
Customer Privacy Policies and Procedures	CCO	see above	see above
Scripts	CCO	see above	see above
Telemarketing	Manager	see above	see above

Public Speaking	CCO	see above	see above
Cold Callers	Manager	see above	see above
Electronic Communications	CCO, Manager	see above	see above
Firm Website	COO	see above	see above
Books and Records	COO, CCO, FINOP, Manager	see above	see above
Calculation and Reporting of Net Capital	FINOP	see above	see above
Reconciliations and Bank Records	FINOP	see above	see above
Financial Reporting	FINOP	see above	see above
Regulation T and Extension of Credit to Customers	Manager, COO	see above	see above
Fidelity Bonding	FINOP	see above	see above
Risk Practices Regarding Employment and Employees	COO, CCO, Manager	see above	see above
New Accounts	Manager	see above	see above
Proprietary Accounts	COO	see above	see above
New Products	COO	see above	see above
Business Continuity Plan	CCO	see above	see above
Customer Payments for Purchases	Manager	see above	see above

Transmittals of Customer Funds and Securities	Manager	see above	see above
Safekeeping of Customer Funds and Securities	Manager	see above	see above
Customer Confirmations and Statements	Manager	see above	see above
Subordination Agreements with Retail Investors	COO	see above	see above
Expense-Sharing Agreements	COO	see above	see above
Audit Letters	CCO	see above	see above
Clearing Agreement	COO	see above	see above
clearing Firm Exception Reports	CCO	see above	see above
Anti-Money Laundering Program	AML	see above	see above
Insider Trading	CCO, Manager	see above	see above
Watch List	COO, CCO	see above	see above
Restricted List	COO, CCO	see above	see above
Accounts	Manager, CCO	see above	see above
Orders	Manager	see above	see above
Supervisory System, Procedures and Controls	CCO	see above	see above
Offices	COO, CCO	see above	see above

Corporate Fixed Income Sales and Trading	Manager	see above	see above
TRACE	CCO	see above	see above
Corporate Finance	COO	see above	see above
Mutual Funds	Manager	see above	see above
Options	ROSFP, ROSFP, Manager	see above	see above
Municipal Securities	Manager, CCO	see above	see above
Government Securities	Manager, CCO	see above	see above
Collateralized Mortgage Obligations "CMO"	Manager, CCO	see above	see above
Independent Contractors	COO, CCO	see above	see above
Private Placements and Offerings	COO, CCO	see above	see above

1.1 Designation Of Offices

[NASD Rule 3010; NASD Notice to Members 05-67; MSRB Rule G-27(b)(iii) and G-27(g)]

SAMCO maintains the following office(s):

Office Location	Type of Office*	Designated Supervisor(s)	Designated Person To Explain Office Records	Type(s) of Business Conducted at Office
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Edmond, OK	BR	Charles David VonHolten	Charles David VonHolten	Equity, Options, Bonds
Houston, TX	BR	Joan Miller Alexander	Joan Miller Alexander	Equity, Options, Bonds
Dallas, TX	OSJ, MBR	Larry Keith McCormick, Joseph Reid Mannes, Chris Whitlcok, Louis Rowlett	Joseph Reid Mannes	Equity, Options, Bonds
Austin, TX	OSJ, MBR	Kimberley Napua Treaster	Kimberley Napua Treaster	Equity, Options, Bonds
San Antonio, TX	OSJ, MBR	Duane Lee Westerman	Duane Lee Westerman	Equity, Options, Bonds
San Antonio, TX	BR	Vincent Edward Myers	Vincent Edward Myers	Equity, Options, Bonds

*OSJ = Office of Supervisory Jurisdiction

*OMSJ = Office of municipal supervisory jurisdiction

*BR = Branch Office

*MBR = Municipal branch office

Non-Branch locations:

*NSA = Non-sales location (limited to customer service, back office functions, *etc.*)

*NSE = Non-securities location (associated person(s) primarily engaged in non-securities activities)

*PR = Primary residence (associated person's primary residence used for securities business)

*OPR = Locations other than primary residences (*e.g.*, other location used less than 30 business days/year for securities business)

*OC = Office of convenience (location used occasionally and exclusively by appointment to meet with customers)

*NON = Location used primarily to engage in non-securities transactions (no more than 25 securities transactions in a calendar year; advertising or sales literature (including business cards) must include location of supervising office)

*TEMP = Temporary office established because of implementation of business continuity plan

2 GENERAL EMPLOYEE POLICIES

2.1 Standards Of Conduct

[FINRA Rule 2010]

It is SAMCO's policy and mandate to its employees to conduct SAMCO's business under the high standards and principles of the rules governing our industry. Employees are expected to deal with customers in a fair and honest way, with the customer's interest of primary concern.

Compliance will distribute compliance policies and procedures to all employees and from time to time will issue updates, as needed.

2.2 Outside Business Activities

[FINRA Rule 3270]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Requests to engage in outside business activities• Annual certifications• Other potential indicators such as incoming or outgoing correspondence
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Employee's supervisor:<ul style="list-style-type: none">○ Question employee regarding potential unapproved outside business activities referenced in correspondence or other indicators of outside business activity○ Refer requests to Compliance• Compliance:<ul style="list-style-type: none">○ Consider whether the proposed activity will:<ul style="list-style-type: none">▪ Interfere with or otherwise compromise the employee's responsibilities to SAMCO and its customers▪ Be viewed by customers or the public as part of SAMCO's business based upon the nature of the proposed activity and the manner in which it will be offered○ Determine whether the activity is an outside business activity or if it would be considered a private securities transaction subject to the requirements of the next section○ Determine any limitations to be imposed prior to approval○ Notify employee of approval/disapproval and any limitations, in writing
Record	<ul style="list-style-type: none">• Retention for 3 years, 2 years in a readily accessible location:<ul style="list-style-type: none">○ Outside Business Activity Request forms including approval/disapproval and any limitations on the activity; or, other written notification (e.g. email)○ Written notification to the employee and his/her supervisor

Employees are required to disclose to SAMCO, in writing, any outside business activities and obtain approval prior to engaging in such activity. Charitable activities are not included in this requirement unless the employee is being compensated. This policy applies to all employees (or other relationships such as RRs acting as independent contractors registered with SAMCO); it does not apply to private securities transactions which are discussed in the next section.

Outside business activities may include a wide range of activities including but not limited to the following:

- Employment with an outside entity
- Acting as an independent contractor to an outside party
- Serving as an officer, director, or partner
- Acting as a finder
- Referring someone and receiving a referral fee
- Receiving compensation or having the reasonable expectation of compensation from any other person as a result of a business activity outside the scope of employment or other relationship with SAMCO

Compensation may include salary, stock options or warrants, referral fees, or providing of services or products as remuneration. Generally, remuneration consisting of anything of present or future value for services rendered may be considered compensation.

Employees requesting approval to engage in outside business activities must complete the Outside Business Activity Request form, or other written notification (e.g. email) and submit it to Compliance **prior to** engaging in the activity. Compliance will approve or disapprove the outside business activity in writing and notify the employee and the employee's supervisor.

2.3 Private Securities Transactions

[FINRA Rule 3040]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests to engage in private securities transactions • Annual certifications • Other indications of potential "selling away" such as in correspondence • Exhibit "A" / Annual RR Questionnaire
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Employee's supervisor: <ul style="list-style-type: none"> ○ Refer requests or indications of private securities transactions to Compliance • Compliance: <ul style="list-style-type: none"> ○ Review requests and certifications ○ Follow up with RR and supervisor regarding indicators of selling away ○ Notify employee by memo ○ Exhibit "A" / Annual RR Questionnaire
Record	<ul style="list-style-type: none"> • Memo in employee's file • Exhibit "A" / Annual RR Questionnaire

No registered representative will effect any security transaction directly or indirectly outside the scope of the Firm without 1) notifying the Firm in writing of the proposed security transaction and 2) receive in writing permission from the Firm.

The Firm must then notify the registered representative in writing of approval or disapproval. If approved, then the transaction is recorded on the books and records of the Firm and supervision of the registered representative's participation in such activity is accomplished by the Firm. This does not apply to outside securities accounts approved by SAMCO, transactions with immediate family members where the employee receives no selling compensation, and personal transactions in investment company and variable annuity securities.

RRs should note that promissory notes often are securities. Even if a promissory note is not deemed a security, the RR has the obligation to obtain SAMCO's permission **before** engaging in any outside business activity involving the offer of promissory notes.

2.4 Employee And Employee Related Accounts

2.4.1 Employee And Employee Related Accounts Defined

Employee accounts include any accounts where an employee has a personal financial interest; the employee is the named trustee or custodian; or the employee otherwise has control over the account. "Accounts" include securities or commodities accounts at SAMCO or other financial institutions including foreign or domestic broker-dealers, investment advisers, banks and other financial institutions.

Employee related accounts include accounts for relatives residing with the employee and accounts for any person who is supported, directly or indirectly, to a material extent by the employee.

2.4.2 Outside Accounts

[FINRA Rule 3050]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Requests for outside accounts Annual certifications
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Employee's supervisor: <ul style="list-style-type: none"> Refer requests to Compliance Compliance: <ul style="list-style-type: none"> Review requests and certifications Notify firm carrying the employee's outside account by letter regarding to whom duplicate statements should be sent Review statements as they are received. Review for: <ul style="list-style-type: none"> Transactions in securities restricted by SAMCO Transactions in new issues Large debit balances, very active trading, or other trading activity that may be of concern For transactions in restricted securities, contact the employee and take corrective action which may include cancellation of the transaction For trading activity that may be of concern, confer with the employee's supervisor or the employee directly regarding the nature of the activity and take appropriate corrective

	<ul style="list-style-type: none"> action, if necessary <ul style="list-style-type: none"> Track review of Statements on Outside Account Spreadsheet.
Record	<ul style="list-style-type: none"> Approval/disapproval memo to the employee's file Statements initialed and filed in Outside Account file Outside Account Spreadsheet Contact with employee and/or supervisor and corrective action, if appropriate, is documented on confirmations or statements or in a memo or note to the employee's file

It is the general policy of SAMCO to require that employees notify the Compliance Department when opening an account. In all cases SAMCO will request duplicate statements from the other dealer carrying the employee's account. This includes accounts with a commodities firm to trade security futures.

These requirements do not apply to accounts limited exclusively to transactions in unit investment trusts and variable contracts or redeemable securities in mutual funds.

2.4.3 Review Of Transactions

[NASD Rule 3010(d)]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Order records
Frequency	<ul style="list-style-type: none"> Daily (order records)
Action	<ul style="list-style-type: none"> Review employee and employee related accounts for possible concerns regarding: <ul style="list-style-type: none"> Very active trading Sizeable debit balances High risk trading patterns Transfers between accounts, particularly employee or related accounts and customer accounts Insider trading Where items of concern are identified, action to be taken depends on the circumstances and may include: <ul style="list-style-type: none"> Consult with the employee regarding trading in the account Confer with Compliance
Record	<ul style="list-style-type: none"> Initials on order records

Transactions in employee and employee related accounts are reviewed daily. Employees will be contacted about transactions that are potentially contrary to rules or SAMCO policy.

2.4.4 Insider Trading

[SEC Securities Exchange Act of 1934 Rule 10b-5 and Section 10]

Employees are prohibited from effecting transactions based on knowledge of material, non-public information. The chapter *INSIDER TRADING* explains SAMCO's policy and all employees are expected to be familiar with the policy.

2.4.5 Sharing In Accounts

[FINRA Rule 2150]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• New account forms• Requests to open accounts jointly with customers
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• RR's supervisor:<ul style="list-style-type: none">○ When approving new accounts, identify accounts where an RR is potentially sharing in the account○ Confer with employee as to the nature of the shared account (what is the relationship between the employee and the other account owner, allocation of profits and losses)○ Refer shared accounts or requests to share in an account to Compliance• Compliance:<ul style="list-style-type: none">○ Require written request from employee and written authorization from customer○ Review and determine whether shared account is appropriate○ Approve or disapprove the request○ Notify employee and supervisor of approval or disapproval
Record	<ul style="list-style-type: none">• Copies of employee request, customer's written authorization, and notation of approval or disapproval is retained with the new account records for the account

SAMCO and its registered employees may not share directly or indirectly in the profits or losses of a customer's account (with the exception of performance-based fees specifically permitted under rules governing investment adviser and other permitted arrangements). As a general policy, registered employees may not participate in an account that includes customers who are not family members of the employee.

A registered employee may be a joint owner in an account with a customer only under the following conditions:

- the employee submits a written request to Compliance accompanied by signed authorization from the customer
- the employee is a disclosed owner of the account
- the employee shares in losses and gains only in proportion to the employee's monetary contribution to the account (not applicable to accounts shared with immediate family members)
- the employee receives written approval from Compliance

2.4.6 Prohibition On Purchases Of Initial Public Offerings (IPOs)

[FINRA Rule 5130]

Employees and their immediate families (parents, spouse, children, in-laws, siblings) are prohibited from purchasing IPOs. This includes sales to anyone materially supported by an employee or a member of the employee's immediate family. Details regarding this prohibition are in the chapter

CORPORATE SECURITIES UNDERWRITING in the section *Restrictions On Purchases Of Initial Public Offerings (IPOs)*.

2.5 Gifts, Gratuities And Entertainment

[FINRA Rule 2310(c)(2)(A), 2320(g)(4)(A), 2830(l)(5)(A) and 3220; FINRA Report on Examination Findings Regarding Gifts and Gratuities: http://www.finra.org/web/groups/rules_regs/documents/rules_regs/p018025.pdf; NASDAQ Rule 3060]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Requests to give or receive gifts Expense reports Annual certification
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> RR's supervisor: <ul style="list-style-type: none"> Refer requests regarding gifts and gratuities to Compliance Review expense reports for reasonableness and compliance with expense policies and approve or disapprove Compliance: <ul style="list-style-type: none"> Review and approve or disapprove gifts and gratuities to be given, aggregated on a calendar year basis to determine compliance with the \$100 annual limit FINOP: <ul style="list-style-type: none"> File Form LM-10 with Dept. of Labor if necessary
Record	<ul style="list-style-type: none"> Gift Approval Logs are maintained in a branch/department file Expense reports are maintained in Accounting

Gifts, gratuities, and entertainment are subject to regulators' limitations. Failure to comply may result in fines or other regulatory actions against the employee and SAMCO. **It is important for all employees to know and comply with this policy.** Questions regarding this policy on gifts and entertainment should be referred to Compliance. Key requirements include:

- Gifts to others are limited to \$100 per year per person** (other than "personal gifts" defined in the policy).
 - Multiple gifts to the same person are aggregated, *i.e.*, the total of all gifts in any year firm-wide cannot exceed \$100 to one person.
 - "Personal gifts" are excluded (as discussed below).
- Receiving** gifts is limited.
- An **employee must host entertainment** to avoid entertainment being considered a "gift" subject to limitations.
- Records of entertainment** must include details of who was entertained and the nature of entertainment.
- Gifts to labor union employees require prior Compliance approval.**
- Gift requirements (whether the gift is given or received) **do not apply to personal gifts** to immediate family members (parents, children, grandparents, siblings, spouse, in-laws) who also happen to be customers and where the gift is unrelated to SAMCO's business. The policy also does not apply to occasional personal gifts to others (such as a wedding gift or a congratulatory gift for the birth of a child).
- If SAMCO pays for the gift** or reimburses the employee for the cost of the gift, the gift is subject to the requirements of this policy.
- Gifts incidental to entertainment** (*e.g.*, a golf shirt given during a golf outing, *etc.*) are considered gifts subject to the gift limitations and recording on the gift log.

2.5.1 Gifts To Others

Gifts relating to SAMCO's business are limited to \$100 per year per person. Gifts of tickets to sporting events or similar gifts where the employee does not accompany the recipient are subject to the limitations on gifts and gratuities. Such gifts may not be so frequent or so expensive as to raise a suggestion of unethical conduct.

Employees of regulators are also subject to rule limitations regarding gifts to them from broker-dealers and their employees. Compliance should be contacted for guidance before giving gifts to employees of regulators.

Gifts and gratuities are not permitted when given for the purpose of influencing or rewarding the action of a person in connection with the publication of information which has or is intended to have an effect upon the market price of any security.

2.5.1.1 De Minimis And Promotional Items

The policy does not apply to gifts of *de minimis* value (such as pens, notepads, or modest desk ornaments) or to promotional items of nominal value with SAMCO's logo (e.g., umbrellas, tote bags or shirts). Promotional items must be valued substantially below the \$100 limit to be excluded from the gift policy. Items of higher value (near \$100 or more), even if they include SAMCO's logo, are considered "gifts" subject to this policy.

FINRA excludes customary lucite tombstones, plaques or other decorative items commemorating a business transaction. This exemption is very limited; other items are considered gifts subject to the policy, even if they commemorate a business transaction.

2.5.1.2 Aggregation Of Gifts

Each recipient is limited to \$100 in **total** gifts during any calendar year.

The annual gift limitation is the aggregate of all gifts given to any one individual. For example, a gift of a \$75.00 ticket to a football game in November (as a gift and not as entertainment discussed below) and then a holiday gift of a \$50.00 bottle of wine to the same person in the same year would be in violation of the \$100 limitation.

2.5.1.3 Valuation Of Gifts

Gifts are valued at the higher of cost or market value excluding tax and delivery charges. For tickets, it is the higher of cost or face value. If gifts are given to multiple recipients, the names of all recipients are recorded and the value of the gift is prorated among recipients. For example, a \$250 fruit basket given to an office of three individuals is permitted since the value of the gift prorated is less than the \$100 limitation per person.

2.5.2 Accepting Gifts

Employees may not solicit gifts or gratuities from customers or other persons with business dealings with SAMCO. Employees are not permitted to accept gifts from outside vendors currently doing business with SAMCO or seeking future business without the written approval of Compliance. This policy does not include customary business lunches or entertainment; promotional items (caps, T-shirts, pens, etc.); or gifts of nominal (less than \$100.00) value.

2.5.3 Entertainment

Entertainment of customers or prospective customers must be reasonable and not so expensive it raises a suggestion of unethical conduct. All entertainment and related expenses must be detailed on an expense form with receipts attached for expenses over \$25.00. Expense forms should be submitted to the appropriate supervisor within 30 days of incurring the expenses.

The limitation on gifts and gratuities does not apply to usual business entertainment such as dinners or sporting events where the employee hosts the entertainment, though such expenses should be reasonable. "Entertainment" includes a broad range of activities such as trips, parties, and other activities where an employee hosts someone related to SAMCO's business. Questions regarding the reasonableness of proposed entertainment and related expenses should be referred to Compliance.

2.5.3.1 Gifts Incidental To Business Entertainment

Items given in conjunction with entertainment (a golf shirt at a golf outing; a fruit basket delivered to a customer's room during a Firm outing) are considered gifts subject to the \$100 limitation.

2.5.4 Gifts, Loans, And Entertainment Involving Unions And Union-Affiliated Individuals

[Labor-Management Reporting And Disclosure Act of 1959 (LMRDA) and DOL Q and A
http://www.dol.gov/esa/regs/compliance/olms/LM30_LM10_Trusts_Info.htm; DOL advisory memo at
http://www.dol.gov/esa/regs/compliance/olms/lm10_advisory.htm]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Expense reports Annual Employee Certification
Frequency	<ul style="list-style-type: none"> Annual
Action	<ul style="list-style-type: none"> File Form LM-10 within 90 days of fiscal year end Include reportable gifts, loans, entertainment, <i>etc.</i> excluding de minimis amounts of \$250 or less Review Annual Employee Certifications to identify union-related gifts, loans, <i>etc.</i> and follow up to include item in annual reporting on Form LM-10
Record	<ul style="list-style-type: none"> Vouchers, worksheets, receipts, and other records Filed Form LM-10 (retained for 5 years) Annual Employee Certifications with notes of action taken, if any

The Department of Labor (DOL), under a federal act, requires SAMCO to report any payment or loan, direct or indirect, of money or other things of value (including reimbursed expenses), or any promise or agreement to make such payments, to any labor organization or officer, agent, shop steward or other representative or employee of a labor organization. This includes entertainment (cost of meals, *etc.*), expenses, or giving gifts or other things that exceed \$250.00 in value where the recipient or beneficiary involves a union or union-affiliated individual.

When reporting gifts, entertainment, loans, and other payments, employees must identify when a union or union-affiliated individual is involved. Employees are obligated to report such items to SAMCO regardless of the dollar amount involved.

2.5.5 Gifts Or Payments To Public Officials

[Various state laws]

A "public official" is anyone who is elected or appointed to an office or is an employee of a "public entity" including any teacher or professor employed by a public entity. A "public entity" is broadly defined and includes political bodies, municipalities and their governing bodies (school district, school board, *etc.*), public universities and colleges as well as any other municipal entity. This policy also includes honorarium payments (payments for any speech given, article published, or attendance at any public or private conference, convention, meeting, social event, or similar gathering).

Some public entities are statutorily authorized to charge the cost of inspections of regulated entities. A public official may, therefore, receive payment for statutorily-authorized expenses. For example, if a state securities official appears at an office to conduct an inspection, the state may, if authorized in state statutes, charge SAMCO for expenses related to conducting the inspection.

Gifts or entertainment involving public officials must be recorded in the gift log or expense report.

2.6 Privacy Policy

[SEC Regulation S-P]

Information regarding customer accounts for individuals is subject to SEC Regulation S-P "Privacy Of Consumer Financial Information." This section explains employees' obligation to maintain the privacy of information. A section *Customer Privacy Policies And Procedures* in the chapter *COMMUNICATIONS WITH THE PUBLIC* outlines firm procedures.

1. Regulation S-P requirements apply to individual and not institutional accounts and include U.S. and foreign accounts.
2. Protected information is termed "nonpublic personal information." This is information obtained by SAMCO that is not deemed "public information" which is defined as information that may be obtained from three sources: federal, state or local government records; widely distributed media; or disclosures to the general public that are required to be made by federal, state, or local law.
3. At the time an account is opened the customer is provided with SAMCO's privacy policy and is given the opportunity to opt out of arrangements to share nonpublic information with nonaffiliated third parties. The privacy policy is also provided to customers on an annual basis.
4. Employees are prohibited from sharing or releasing nonpublic personal information other than to authorized parties. This includes a prohibition against:
 - Sending internal reports or other information about firm customers to a non-affiliated 3rd party (unless authorized).
 - Sending internal or other documents that include customer non public information to your personal e-mail address.

Questions about providing customer information should be referred to Compliance.

2.7 Reporting Possible Law Or Rule Violations

[SEC Securities Exchange Act of 1934 Section 21F; SEC Rule 21F; FINRA Rule 4530(b)]

Responsibility	<ul style="list-style-type: none"> Chief Compliance Officer (or, if the CCO is involved in the potential wrongdoing, an alternate senior manager)
Resources	<ul style="list-style-type: none"> Reports of possible law or rule violations from employees Referrals from outside sources such as regulators
Frequency	<ul style="list-style-type: none"> Investigate reports: As required Employee education: At least annually
Action	<ul style="list-style-type: none"> Acknowledge the employee's report and advise confidentiality will be maintained and there will be no retaliation for reporting Determine who will be involved in the investigation and notify those persons of the confidentiality of the investigation Conduct the investigation using tools appropriate to the issue (interviewing employees, reviewing internal/external reports, engaging counsel, etc.)

	<ul style="list-style-type: none"> • Determine whether there was potential wrongdoing and decide whether a report should be made to regulators • Take internal corrective action, as appropriate • Advise the reporting employee of the status of the investigation • Include reporting of possible law or rule violations and SAMCO's process for internal investigations as part of regular employee education
Record	<ul style="list-style-type: none"> • Report from employee • Information regarding the investigation including records reviewed, who is involved, what steps taken, reports to regulators (if appropriate), conclusion of investigation • Records of employee education including how education is conducted (classes, online education, compliance memos, etc.), who participates, subjects included, and when it occurs

It is the intent of SAMCO to adhere to all laws and regulations that apply to the organization; the underlying purpose of this policy is to support the organization's goal of legal compliance. The support of all employees is necessary to achieve compliance with various laws and regulations.

2.7.1 Reporting

Employees should report possible crimes or rule violations involving SAMCO, a department, or an employee or employees as well as outside vendors or service providers. Reporting may be made to any or all of the following, particularly where the employee's supervisor may be involved in the possible wrongdoing.

1. President
2. CCO
3. Branch Manager

2.7.2 Confidentiality Of Employee Reporting

All reports will be treated as confidential. The employee's identification will be kept confidential other than to those who need to know such as the compliance officer or counsel or someone else conducting an investigation. Any person identified in the report as a potential wrongdoer will not be provided the name of the person who has filed a report.

2.7.3 Notification Of Chief Compliance Officer

A supervisor or other manager who receives a report of possible violations should immediately refer the matter to the Chief Compliance Officer who is responsible for conducting an investigation and overseeing the review until its conclusion, including potential reporting to a regulator. If the Chief Compliance Officer is involved in the potential wrongdoing, the member of management to whom the issue is reported will be responsible for conducting the investigation.

2.7.4 Investigation

SAMCO will promptly investigate the reported possible wrongdoing and determine what action is required. Outside counsel may be engaged as part of the investigation. The reporting employee will be advised of the conclusion or resolution of the investigation.

2.7.5 Anti-Retaliation

SAMCO will not retaliate against an employee who reports some practice of SAMCO, a department, or employee(s) or of another individual or entity with whom SAMCO has a business relationship that

may represent a rule or law violation. SAMCO will not retaliate against employees who disclose or threaten to disclose (to SAMCO or a public body such as a regulator) any activity, policy, or practice of SAMCO that the employee believes is in violation of a law, or a rule, or regulation mandated pursuant to law.

Supervisors and others are prohibited from engaging in discipline, threats, or discriminatory actions against employees for engaging in whistleblowing activities.

2.7.6 Federal Whistleblower Laws And Rules

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

2.8 The Foreign Corrupt Practices Act (FCPA)

[United States Code Title 15 Chapter 2B; FINRA Regulatory Notice 11-12]

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Proposed contracts • Entertainment, expense, and/or other information regarding expenditures
Frequency	<ul style="list-style-type: none"> • As required: Proposed contracts • Annual: Review of expenditures relating to gifts, travel, etc. in conjunction with business area reviews
Action	<ul style="list-style-type: none"> • Review entertainment, gifts, travel expenses, other expenditures relating to Foreign Officials for approval and compliance with firm policy • Review/approve contracts with foreign agents, representatives, etc. • Review reports from employees of potential violations • Conduct employee training regarding the FCPA and employee obligations to report, including SAMCO's anti-retaliation policy
Record	<ul style="list-style-type: none"> • Reviews for compliance with policy and any action taken • Contracts reviewed and approved/disapproved

SAMCO has a commitment to comply with all Federal and regulatory requirements; part of that is compliance with the Foreign Corrupt Practices Act (FCPA). The FCPA is a U.S. act that applies to all employees, affiliates and subsidiaries involved in potential payments to foreign officials and provides standards of conduct and practices under the anti-bribery and accounting provisions of the FCPA. For purposes of this policy, a "Foreign Official" includes any officer or employee of a foreign government, agency, or instrumentality of the agency; public international organization; any person acting in an official capacity for or on behalf of any such government or department, agency, or instrumentality; or for or on behalf of any such public international organization; or a foreign political party or official or person acting on behalf of a foreign political party. Foreign Official also includes an employee of an entity that is 100% owned by a government. Foreign Officials may also include employees of an entity where a government holds a controlling interest. The U.S. Government has not specified what level of

control creates a state-owned entity. Questions about whether someone is a Foreign Official should be referred to Compliance.

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

2.8.1 FCPA Prohibitions

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

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

The FCPA prohibits employees from presenting an offer, gift, payment, promise of payment, authorization of payment, or any item of value to a Foreign Official with the intent of assisting SAMCO in obtaining, retaining or directing business to any person. Intent can include those gifts, payments, *etc.* made with a conscious disregard or deliberate ignorance of their purpose.

The FCPA also prohibits any such payments to third parties or intermediaries while knowing that all or a portion of such money or thing of value will be offered, given or promised, directly or indirectly, to any Foreign Official. Intermediaries can include, but are not limited to, joint venture partners or other agents such as consultants, independent service providers and vendors.

Cash payments and political contributions made on behalf of SAMCO to Foreign Officials, either directly or via a third party, are prohibited.

FINRA Regulatory Notice 11-12 includes a summary of affirmative defenses and exception for facilitating payments for "routine governmental actions."

2.8.2 Required Approvals

An expenditure of any size for courtesies, gifts, entertainment, travel, lodging or other payment of any kind to or on behalf of any Foreign Official must be approved in accordance with SAMCO's gifts policy. All questions about the application of this policy, or concerns regarding potential violations of the policy, should be directed to Compliance.

2.8.3 Contracts With Third Parties

SAMCO must exercise reasonable due diligence in the selection of any third party to be used in connection with a foreign government, its officials or anyone meeting this policy's definition of "Foreign Official." No agent, representative, or consultant may be retained for such purpose without the written approval of Compliance after the satisfactory completion of appropriate due diligence procedures. Contracts with such third parties will be in writing, and specifically bind the individual or entity to comply with the FCPA. Payment to such third parties will be permitted only if it is reasonable in relation to the services performed.

2.8.4 Business Entertainment, Gifts And Travel Expenses

Entertainment, gifts and travel expenses may not be paid to, or on behalf of, Foreign Officials unless they meet all of the guidelines below. For further guidance, employees should contact Compliance.

- The expenditures should not be lavish or excessive, on either a per capita or event basis, as determined by the economic standards of the country in which the benefit is being given.
- A valid business purpose should be associated with all SAMCO-funded activities.
- The event or provision of gifts should be infrequent.
- The event or activity should be legal under both U.S. and local law, within accepted industry norms, and consistent with company policy.
- The expenditures should be accurately and adequately documented in SAMCO's books and records, including their business purpose, value and record of approval.
- Travel and hotel expenses for government officials should be made directly to the vendor by SAMCO rather than allowing the officials to pay their own way and to seek reimbursement.
- Entertainment and gifts must comply with SAMCO's policies.
- All expenditures must be permitted under the local law where the Foreign Official is employed, which may be more restrictive than U.S. law. For further guidance on complying with this requirement, employees are encouraged to confer with Compliance.

2.8.5 Promotional/Educational Expenses

Reasonable promotional expenditures are permitted under the FCPA; however, they must not be designed to improperly influence a Foreign Official in a decision-making capacity. If SAMCO intends to cover any of the attendee's expenses at a promotional/educational event, and one or more attendees is a Foreign Official, approval by Compliance is required.

2.8.6 Facilitating Payments

The FCPA's general anti-bribery prohibition does not apply to small payments to facilitate and expedite performance of a "routine governmental activity" (*i.e.*, ministerial actions to which SAMCO is legally entitled), such as obtaining permits, licenses and official documents, processing governmental papers, or providing postal or utility services. "Routine governmental action" does not include any discretionary decision by a foreign official to award new business or to continue business with SAMCO.

In as much as the FCPA does not prohibit these types of facilitation payments to be made outside of the United States, local law may prohibit them. In such cases, local law will prevail. If such payments are permitted, they may be made only after written pre-approval has been obtained from Compliance.

2.8.7 No Cash Payments To Foreign Officials

Payments to a Foreign Official, third-party service provider, or anyone else pursuant to an available and approved exemption from the FCPA must not be made in cash. Checks may not be made payable to "cash," "bearer," or other designees of the party entitled to payment. Payments may not be made outside the country of residence of the recipient without prior consultation and approval of Compliance.

2.8.8 Political Contributions

Neither SAMCO nor any employee should make any political contribution on behalf of SAMCO to a foreign government, official, or political party or candidate in a foreign country without prior approval by Compliance. Private political contributions are not under any circumstances reimbursable by SAMCO.

2.8.9 Financial And Accounting Controls

If SAMCO is deemed an "issuer" under FCPA, the CFO is responsible for establishing appropriate accounting and financial policies, procedures and other internal controls to fulfill the accounting provisions of the FCPA.

2.8.10 Certifications

Some employees who deal with foreign entities, persons, and/or accounts may be required to submit annual certification regarding their knowledge of and compliance with SAMCO's FCPA policy. Compliance will maintain a list of affected employees and obtain certifications where required by SAMCO.

2.9 Charitable Contributions

[FINRA Notice to Members 06-21]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Requests to make charitable contributions
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Review contribution to identify potential conflicts of interest• Approve or disapprove
Record	<ul style="list-style-type: none">• Record of requests and approval or disapproval, including date reviewed and initials of reviewer

When an employee or an agent of a customer such as a mutual fund, pension plan, or investment manager solicits a substantial charitable contribution from SAMCO or an RR, there may be a conflict of interest. For example, if an investment manager requests a \$10,000 contribution to a charity, this could be construed as a condition for the investment manager to direct business to SAMCO. There can be no quid pro quo between contributions and business conducted with SAMCO.

To avoid potential conflicts of interest, SAMCO has established the following guidelines for handling such requests.

1. Charitable giving by SAMCO or foundations created by SAMCO is subject to review by the CCO or the CCO's designee on at least an annual basis.
2. Contributions of \$5,000 or more solicited by an employee or agent of a customer require the prior approval of Compliance and will require the approval of someone representing the customer other than the person soliciting the contribution.
3. Contributions cannot be based on the actual or anticipated level of business done by the customer.
4. These requirements do not apply to a retail customer who solicits a charitable contribution when acting in his or her individual capacity.

2.10 Media Contact Is Limited To Certain Authorized Employees

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Requests to communicate with the media • Indications an unauthorized person has had media contact
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • For requests, determine nature of contact and whether the individual is or should be authorized to engage in the contact • If necessary, notify the employee whether contact will be permitted and provide guidelines • For unauthorized contact, confer with the employee (and the employee's supervisor, if appropriate)
Record	<ul style="list-style-type: none"> • Maintain a list of authorized persons and limitations on their contact, if appropriate

SAMCO is sometimes contacted by media representatives (television, radio, newspapers, magazines, and other types of media). Employees who are contacted by media representatives are not permitted to comment but must refer the representative to one of the following individuals within SAMCO:

- President
- Compliance Officer
- Person designated by any of the above

Individuals authorized to speak to the media are expected to make comments consistent with good taste and SAMCO's opinion or position on matters discussed.

2.11 Requests For Information From Outside Sources

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Written or oral requests for information • Subpoenas • Other
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Compliance: Provide response, as appropriate
Record	<ul style="list-style-type: none"> • Retain record of response in legal, regulatory, or other files

SAMCO and its employees are sometimes contacted by outside parties such as regulators (SEC, FINRA, exchanges, state and other regulators), attorneys and governmental agencies (e.g., the IRS) that request information about customer accounts, SAMCO activities, or an individual employee's activities.

Information regarding customer accounts, SAMCO and its employees is considered confidential and may be released only to those authorized to receive it. Any requests from outside parties (other than the principal or authorized person on behalf of an account requesting information on the account) should be immediately referred to Compliance for response. This includes requests received in any form whether written, by phone, or in person. This also includes visits by regulators. Proof of identification should be requested and Compliance immediately notified.

2.12 Internal Reviews And Investigations

If necessary, SAMCO may conduct an internal review or investigation. Employees may be requested for information that may include an employee's signed written statement. Failure to provide requested information may result in disciplinary action, including termination.

2.13 Internal Disciplinary Actions

SAMCO's goal in administering discipline is to take measures to maintain the quality of service provided to our customers by encouraging appropriate behavior. The expected result of these measures is the deterrence of inappropriate behavior and, when improper activity occurs, to take corrective action commensurate with the activity.

2.13.1 When Disciplinary Action Is Considered

Although it is impossible to list all circumstances in which discipline may be imposed, disciplinary action will be considered when there is:

- An admitted violation of company policy, regulatory rules or regulations, or federal/state laws.
- A determination of an actual or probable violation of company policy, regulatory rules or regulations, or federal/state laws.

2.13.2 Who Determines Disciplinary Action

Although Compliance will not always be the primary decision maker in determining disciplinary action, it is **essential** that Compliance be notified **in advance** of all disciplinary actions in order to analyze such actions for regulatory reporting purposes and for adequate recordkeeping of disciplinary information. Compliance may modify the terms of discipline outlined in the policy depending on the facts and circumstances of the situation.

2.13.3 Types Of Discipline

There is a range of possible disciplinary action; the level of discipline will be determined by Compliance. Compliance will collaborate with the individual's supervisor who will be copied on any communications to the individual regarding the disciplinary action.

Letter of Caution (LOC): An LOC is a memorandum that specifies a possible violation and/or serves as a warning of inappropriate behavior. The LOC outlines the expected behavior and the possible consequences of future violations similar in nature. The LOC requires the recipient's signature certifying his/her receipt of the memorandum and understanding of the matter.

Admonishment: An Admonishment is a memorandum that formally reprimands an individual based on admitted or determined violations. The Admonishment specifies the admitted or determined violation and the expected behavior. It specifies the possible consequences of future violations similar in nature and may be administered with a **Non-reportable** or **Reportable Fine** (see below). The Admonishment requires the recipient's signature certifying his/her receipt of the memorandum and understanding of the matter.

Non-reportable Fine: A Non-reportable Fine is a monetary sanction that is less in amount than that which is required to be reported to a self-regulatory organization (SRO). Non-reportable fines will usually be attached to an **Admonishment** (see above) and/or **Suspension of Employment**. In any event, the admitted or determined violation will be specified along with the expected behavior and possible consequences of future violations similar in nature.

Non-reportable fines will be withheld from a producing-employee's commissions. In the case of a non-producing employee, the fine will be collected in the form of personal or certified check or money order. The amount of the fine may be donated, in the name of the company, to a local charity.

Reportable Fine: A Reportable Fine is a monetary sanction that is greater than or equal to the amount that is required to be reported to an SRO. Reportable fines will usually be attached to an

Admonishment (see above) and/or **Suspension of Employment**. In any event, the admitted or determined violation will be specified along with the expected behavior and possible consequences of future violations similar in nature.

Reportable fines will be withheld from a producing-employee's commissions. In the case of a non-producing employee, the fine will be collected in the form of personal or certified check or money order. The amount of the fine may be donated, in the name of the company, to a local charity.

Suspension of Employment: An employee may be suspended for violations of applicable company policy, regulatory rules or regulations, or federal/state laws. Prior to Suspension of Employment, the employee will be informed of the violation, the expected behavior, and the terms of the suspension.

While under suspension, employees may not:

- Have direct or indirect contact with customers
- Act as a registered representative
- Represent oneself as a registered representative
- Give investment advice or counsel
- Receive compensation
- Transact business in any securities account (other than a personal account)
- Have contact with company employees except the employee's supervisor or Compliance
- Enter into any company premises

A Suspension of Employment memorandum will be delivered to the employee. This document will specify the admitted or determined violation and the expected behavior. It will also specify the possible consequences of future violations similar in nature. The Suspension of Employment memorandum may require the recipient's signature certifying his/her receipt of the memorandum and understanding of the matter. Suspensions will be reported by Compliance to the appropriate SRO(s).

Termination of Employment: An employee's employment may be terminated for violations of company policy, regulatory rules or regulations, or federal/state laws. The employee will be informed of the violation and termination of employment.

Termination will be reported by Compliance to the appropriate SRO(s).

2.13.4 Additional Action

The employee may be subject to Heightened Supervision as outlined in the chapter *EMPLOYMENT, REGISTRATION AND LICENSING*. The employee also may be excluded for a specified period of time from forms of special recognition offered by SAMCO. The employee may also be subject to added education, re-testing for licensing, title downgrading, or other remedial actions deemed appropriate by Compliance.

2.13.5 Considerations In Determining Type Of Discipline

The nature of the inappropriate conduct is important in determining the type of discipline to be imposed. The more serious the conduct, the more severe the discipline. An employee's prior complaint and disciplinary history will be considered in determining the appropriate level of discipline. The activity's risk to SAMCO, injury to customers, and the employee's cooperation may all be factors (among others) in determining the discipline.

2.14 Employee Obligation To Notify The Firm And The Firm's Obligation To Report

[FINRA Rule 4530]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Information provided by employees including information from Annual Employee Certifications • Lawsuits and arbitrations • Regulatory actions • Criminal actions • FINRA compliance reports
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Determine whether information or events are reportable including updating the RR's Form U4 or U5 • File information electronically with FINRA
Record	<ul style="list-style-type: none"> • Record of electronic filings • Records of updates to Form U4 or U5

Regulators require reporting of certain events and updating of Forms U4 and U5 when previously-filed information changes. **Employees are obligated to notify Compliance if there are changes to Form U4 responses and report other information required by rule or by SAMCO.**

The following is an excerpt from FINRA Rule 4530 that outlines events that require reporting:

1. the member or an associated person of the member:
 - has been found to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization or business or professional organization;
 - is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;
 - is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory body or self-regulatory organization alleging the violation of any provision of the Exchange Act, or of any other federal, state or foreign securities, insurance or commodities statute, or of any rule or regulation thereunder, or of any provision of the by-laws, rules or similar governing instruments of any securities, insurance or commodities domestic or foreign regulatory body or self-regulatory organization;
 - is denied registration or is expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization;
 - is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military or foreign court;
 - is a director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with, a broker, dealer, investment company, investment advisor, underwriter or insurance company that was suspended, expelled or had its registration denied or revoked by any domestic or foreign regulatory body, jurisdiction

- or organization or is associated in such a capacity with a bank, trust company or other financial institution that was convicted of or pleaded no contest to, any felony or misdemeanor in a domestic or foreign court;
 - is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding \$15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding \$25,000; or
 - is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a "statutory disqualification" as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification; or
2. 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 fines in excess of \$2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual's activities on a temporary or permanent basis.

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

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

2.14.1 Reporting Requirements

SAMCO will report specified events involving the firm or an associated person to FINRA via the Regulatory Filings Application on the FINRA Firm Gateway no later than 30 calendar days after SAMCO knows of the event. This is in addition to any obligation to update an associated person's U4 or U5 or SAMCO's Form BD.

SAMCO will promptly report to FINRA (not later than 30 calendar days after SAMCO has concluded or reasonably should have concluded) that an associated person of SAMCO or SAMCO itself has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization. Conduct reported will be conduct that has a significant monetary result with respect to SAMCO, customers, or markets, or multiple instances of any violative conduct.

Relating to reported events, SAMCO will file with FINRA copies of the following. Events already reported on Form U4 with an affirmative request to satisfy Rule 4530 reporting requirements and FINRA findings and actions will not be reported separately.

1. any indictment, information or other criminal complaint or plea agreement for conduct reportable under paragraph (a)(1)(E) of this Rule;
2. any complaint in which a member is named as a defendant or respondent in any securities- or commodities-related private civil litigation, or is named as a defendant or respondent in any financial-related insurance private civil litigation;

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

2.15 Money Laundering

[FINRA Rule 3310; Bank Secrecy Act]

Money laundering is a serious crime potentially related to the funding of terrorist activities. It is the subject of extensive federal regulations that impose requirements on financial institutions, such as broker-dealers and their employees, to detect and prevent potential money laundering activities. This is an obligation of each employee of SAMCO.

Money laundering is the movement of criminally derived funds to conceal the true source, ownership, or use of the funds. The funds are filtered through a maze or series of transactions, so the funds are "cleaned" to look like proceeds from legal activities.

In general, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash profits from criminal activity are 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 separate further the proceeds from their criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund further criminal or legitimate activities.

Engaging in money laundering is a federal crime with severe penalties for those engaged in criminal activities and those who facilitate, intentionally or inadvertently, money laundering. It is important that SAMCO, as well as all employees, remain diligent and active participants in SAMCO's anti-money laundering (AML) program.

2.15.1 Background

The Currency and Foreign Transactions Reporting Act, also known as the Bank Secrecy Act (BSA), and its accompanying regulation, is a tool the U.S. government uses to fight drug trafficking, money laundering, and other crimes. Congress enacted the BSA to prevent financial service providers (such as banks and broker-dealers) from being used as intermediaries for, or to hide the transfer or deposit of, money derived from criminal activity. Money laundering schemes may include the use of wire transfers, cash, bearer instruments, travelers' checks, money orders, cashiers' checks, and other negotiable instruments.

SAMCO is required to comply with the reporting, recordkeeping, and record retention requirements of the BSA. The requirements govern the payment, receipt, or transfer of currency within and into and out of the U.S. and foreign financial transactions and accounts.

2.15.2 Shell Companies

[FINCen advisory on shell companies: http://www.fincen.gov/AdvisoryOnShells_FINAL.pdf]

Shell companies may represent potential money laundering risks. "Shell company" refers to non-publicly traded corporations, limited liability companies (LLCs), and trusts that typically have no physical presence (other than a mailing address) and generate little or no independent economic value. It is important for employees to be aware of the risks involved in dealing with shell companies.

Most shell companies are formed for legitimate business purposes such as to hold stock or intangible assets of another business entity or to facilitate domestic and cross-border currency and asset transfers and corporate mergers. Unfortunately, shell companies have become common tools for money laundering and other financial crimes, primarily because they are easy and inexpensive to form and operate, and ownership and transactional information can be concealed from regulatory and law enforcement authorities. Most states do not collect or require disclosure of ownership information at the formation stage or after.

Agents, also known as intermediaries or nominee incorporation services (NIS), can play a central role in the formation and maintenance of shell companies. Agents and NIS firms offer a wide range of services that may include offering an office address, mail-forwarding services, local telephone listings, and other services that may give the appearance of a locally-established business. Some agents and NIS firms also provide nominee services which can preserve a client's anonymity. Some risk indicators of shell companies potentially engaged in money laundering are:

- An inability to obtain (through Internet searches, commercial database searches, or direct inquiries to the company's foreign correspondent bank) information necessary to identify originators or beneficiaries of wire transfers.
- A foreign correspondent bank exceeds the anticipated volume projected in its client profile for wire transfers in a given period or an individual company exhibits a high amount of sporadic activity that is inconsistent with normal business patterns.
- Payments have no stated purpose, do not reference goods or services, or identify only a contract or service number.
- Goods or services of the company do not match the company's profile based on information previously provided.
- Transacting businesses share the same address, provide only a registered agent's address, or raise other address-related inconsistencies.
- An unusually large number and variety of beneficiaries receive wire transfers from one company.
- Frequent involvement of beneficiaries located in high-risk, offshore financial centers.
- Multiple high-value payments or transfers between shell companies with no apparent legitimate business purpose.

2.15.3 Penalties

Participation in a money laundering scheme or the knowing receipt of proceeds from criminal activities is a crime. SAMCO and its employees are subject to severe criminal, civil, and regulatory penalties if they facilitate or participate in money laundering activities. Violations by employees may result in internal disciplinary action including termination.

An employee may be deemed to be facilitating or participating in money laundering by engaging in a transaction with a customer (accept a deposit, arrange a withdrawal, effect a trade, *etc.*) when he or she is aware of, or willfully ignores, the fact that the customer is engaged in illegal activities.

2.15.4 Treasury Dept. OFAC List

The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) is responsible for publishing sanctions against persons, corporations, and other entities including foreign governments that have been identified by the U.S. Government as engaging in criminal activities including drug trafficking and terrorist activities. SAMCO is obligated to check its accounts against the lists of blockings to ensure it does not engage in prohibited transactions which include securities transactions and transfer of assets out of a blocked account or to a blocked person or entity.

SAMCO has procedures to monitor the OFAC lists and comply with requirements to block property and notify OFAC when required. Questions regarding SAMCO's program should be referred to the AML Compliance Officer. More information is also available at the OFAC web site at www.treas.gov/ofac.

2.15.5 Preventing Money Laundering

There are a number of ways SAMCO and its employees can avoid money laundering schemes.

2.15.5.1 Knowing The Customer

Being familiar with the customer's financial resources, business activities, and sources of funds are avenues for knowing the customer. Knowing the customer occurs at the time an account is opened as well as during the operation of a customer's account.

The identity of customers must be verified when a new account is opened. Procedures for verifying customer ID are explained in the chapter *ACCOUNTS* in the section *New Accounts*.

2.15.5.2 Risk Indicators

[NASD Notice to Members 02-21]

The following are examples of risk indicators (red flags) that may suggest potential money laundering.

Red Flags indicating potential Money Laundering
The customer exhibits unusual concern regarding SAMCO's compliance with government reporting requirements and SAMCO's AML policies, particularly with respect to his or her identity, type of business and assets, or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspect identification or business documents.
The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy.
The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs.
The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.
The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
The customer engages in suspicious activity involving the practice of depositing penny stocks, liquidates them, and wires proceeds. A request to liquidate shares may also represent engaging in an unregistered distribution of penny stocks which may also be a red flag. [FINRA Regulatory Notice 09-05]
The customer attempts to make frequent or large deposits of currency, insists on dealing only in cash equivalents, or asks for exemptions from SAMCO's policies relating to the deposit of cash and cash equivalents.
The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the \$10,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds.
For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers.
The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the Financial Action Task Force (FATF).
The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity.
The customer's account shows numerous currency or cashiers check transactions aggregating

to significant sums.
The customer's account has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.
The customer's account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven
The customer's account indicates large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose.
The customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm, without any apparent business purpose.
The customer makes a funds deposit for the purpose of purchasing a long-term investment followed shortly thereafter by a request to liquidate the position and transfer of the proceeds out of the account.
The customer engages in excessive journal entries between unrelated accounts without any apparent business purpose.
The customer requests that a transaction be processed in such a manner to avoid SAMCO's normal documentation requirements.
The customer, for no apparent reason or in conjunction with other "red flags," engages in transactions involving certain types of securities, such as penny stocks, Regulation "S" (Reg S) stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.)
The customer's account shows an unexplained high level of account activity with very low levels of securities transactions.
The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent business purpose or other purpose.
The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer.

2.15.6 Cash Deposits Not Accepted

SAMCO does not accept cash deposits or cash equivalents (money orders, travelers checks). Customers who attempt to deposit cash should be advised to submit a personal check to his or her account.

2.15.7 Reports Of AML Non-Compliance And Other Potential Crimes

All employees are obligated to promptly report to the AML Compliance Officer any known or suspected violations of anti-money laundering policies as well as other suspected violations or crimes. If the potential violation implicates the AML Officer, it should be reported to a senior officer of SAMCO. All reports are confidential and the employee will suffer no retaliation for making them.

What to report: Crimes or suspected crimes by individuals (whether associated with SAMCO, a customer, or prospective customer) are required to be reported. This includes suspicion that SAMCO is being used as a conduit for criminal activity such as money laundering or structuring transactions (discussed below) to evade the Bank Secrecy Act reporting requirements. There is no clear definition of what constitutes a "crime." If you believe some improper or illegal activity is occurring, it is your obligation to report it.

SAR reports: Broker-dealers are required to file Suspicious Activity Reports (SARs) for transactions that may be indicative of money laundering activity.

By law, SAMCO and its employees cannot disclose to the customer or anyone other than authorized regulators that it has filed a SAR. Questions regarding SAR filings should be referred to Compliance.

2.15.8 Currency Transaction Reporting

The Bank Secrecy Act requires broker-dealers to report certain transactions relating to currency transactions, as follows:

- Report cash or currency deposits of more than \$10,000, including multiple deposits on the same day that would total more than \$10,000. A currency Transaction Report (CTR) is filed with the Financial Crimes Enforcement Network (FinCEN), a bureau of the Treasury Department. Some state regulators also require reporting of currency transactions.
- Report currency or bearer instruments over \$10,000 transferred into or out of the U.S. The Currency and Monetary Instrument Transportation Report (CMIR) is filed with the U.S. Customs Service.

2.15.8.1 Prohibition Against Structuring Deposits To Avoid Reporting

Cash or currency deposits or attempted deposits which appear to be part of a deposit structure to avoid IRS or Customs currency reporting requirements or Firm limitations, or are otherwise suspicious, may not be accepted and must be reported to Compliance. Employees are prohibited from:

- aiding or advising a customer in structuring a transaction to avoid reporting requirements
- holding instruments for deposit on succeeding days
- transporting cash or cash equivalents or bearer instruments to a bank on behalf of a customer

2.15.9 Recordkeeping Requirements

In addition to reporting requirements, broker-dealers are subject to requirements to maintain records of transfers of funds (including wire fund transfers) of \$3,000 or more. This includes transfers between accounts that are not for the same owner and transfers to third parties including banks and other financial institutions. Records of transfers are available for inspection by regulators and other appropriate authorities, when requested.

2.15.10 AML Compliance Officer

SAMCO has designated an AML Compliance Officer who is responsible for overseeing SAMCO's anti-money laundering program. The AML Officer may be contacted whenever an employee has questions about SAMCO's program, a current or prospective account, or activities or transactions that raise questions about potential money laundering activities. An employee may also provide information anonymously to the AML Officer. The AML Officer is responsible for investigating suspected money laundering activities and taking corrective action when necessary.

2.15.11 Identity Theft

Identity thieves use someone's personal identifying information to open new accounts and misuse existing accounts. Below SAMCO has outlined elements of an Identity Theft Prevention Program (ITPP) to help detect and prevent identity theft. Many elements of detecting or preventing identity theft are similar to anti-money laundering (AML) requirements that are included in these policies.

The ITPP is based on identifying "red flags" that indicate identity theft may have occurred. ***It is the responsibility of all employees to be alert and report to the AML Compliance Officer any new or existing customers who may be engaged in violations of anti-money laundering regulations or identity theft or who have reported identity theft.***

Following is a list of potential identity theft red flags.

Red Flag
Category: Alerts, Notifications or Warnings from a Consumer Credit Reporting Agency
1. A fraud or active duty alert is included on a consumer credit report. An "active duty" alert is an alert a military person may add to his/her credit report to identify potential identity theft.
2. A notice of credit freeze is given in response to a request for a consumer credit report.
3. A notice of address or other discrepancy is provided by a consumer credit reporting agency.

4. A consumer credit report shows a pattern inconsistent with the person's history, such as a big increase in the volume of inquiries or use of credit, especially on new accounts; an unusual number of recently established credit relationships; or an account closed because of an abuse of account privileges.
Category: Suspicious Documents
5. Identification presented looks altered or forged.
6. The identification presenter does not look like the identification's photograph or physical description.
7. Information on the identification differs from what the identification presenter is saying.
8. Information on the identification does not match other information our firm has on file for the presenter, like the original account application, signature card or a recent check.
9. The application looks like it has been altered, forged or torn up and reassembled.
Category: Suspicious Personal Identifying Information
10. Inconsistencies exist between the information presented and other things we know about the presenter or can find out by checking readily available external sources, such as an address that does not match a consumer credit report, or the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA's) Death Master File.
11. Inconsistencies exist in the information that the customer gives us, such as a date of birth that does not fall within the number range on the SSA's issuance tables.
12. Personal identifying information presented has been used on an account our firm knows was fraudulent.
13. Personal identifying information presented suggests fraud, such as an address that is fictitious, a mail drop, or a prison; or a phone number is invalid, or is for a pager or answering service.
14. The SSN presented was used by someone else opening an account or other customers.
15. The address or telephone number presented has been used by many other people opening accounts or other customers.
16. A person who omits required information on an application or other form does not provide it when told it is incomplete.
17. Inconsistencies exist between what is presented and what our firm has on file.
18. A person making an account application or seeking access cannot provide authenticating information beyond what would be found in a wallet or consumer credit report, or cannot answer a challenge question.
Category: Suspicious Account Activity
19. Soon after SAMCO gets a change of address request for an account, we are asked to add additional access means (such as debit cards or checks) or authorized users for the account.
20. A new account exhibits fraud patterns, such as where a first payment is not made or only the first payment is made, or the use of credit for cash advances and securities easily converted into cash.
21. An account develops new patterns of activity, such as nonpayment inconsistent with prior history, a material increase in credit use, or a material change in spending or electronic fund transfers.
22. An account that is inactive for a long time is suddenly used again.
23. Mail SAMCO sends to a customer is returned repeatedly as undeliverable even though the account remains active.
24. We learn that a customer is not getting his or her paper account statements.
25. We are notified that there are unauthorized charges or transactions to the account.
Category: Notice From Other Sources
26. An outside agency, law enforcement, a clearing firm, or other source notifies SAMCO that an account has been opened or used fraudulently.
27. SAMCO is notified of potential unauthorized access to customer personal information due to data loss from an outside provider or a breach of an outside provider's data.
28. Notice from a customer of the loss of information (e.g., loss of wallet, birth certificate, etc.).

2.16 Emergency Business Recovery Procedures

[FINRA Rule 4370]

SAMCO has a *Business Continuity Plan* that assigns responsibilities and outlines procedures in the event of a disaster or emergency which impacts SAMCO's ability to continue conducting business (also termed a "significant business disruption"). Examples of a major disruption include a regional power outage; disruption at another company that provides services critical to SAMCO's business; and destruction of an office or other facilities by natural causes or by other means. The Plan designates employees who are responsible for employee safety and protection of firm property, records, and customer assets.

In the event of a disruption, employees will be given instructions by authorized personnel. Depending on the nature of the emergency, it may be necessary to use alternative communication systems; transfer personnel and/or business activities to alternative office space; or transfer SAMCO's business to other brokerage firms or financial institutions until normal operations can be resumed.

SAMCO has established procedures for contacting employees in the event of an emergency. If SAMCO conducts a test of its emergency procedures, all employees are required to participate as if the emergency were real. Past emergencies affecting the securities industry have shown that preparedness and cooperation are key to maximizing the safety of employees and minimizing business interruptions. It is important for all employees to follow instructions from senior management and other authorized key personnel during any drill or when an emergency occurs.

Questions regarding SAMCO's Business Continuity Plan may be referred to Compliance.

2.17 Prohibited Activities

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Various (referral of items, direct identification, review of transactions, correspondence, etc. depending on the nature of the prohibited activity)
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Take corrective action which may include:<ul style="list-style-type: none">○ Conferring with the employee○ Referring the matter to Compliance○ Issuing a written admonition○ Restricting the activities of or transactions handled by the employee○ Suspending the employee○ Termination
Record	<ul style="list-style-type: none">• The record of action taken depends on the nature and seriousness of the prohibited activity. Records, if needed, may be in different forms, including the following:<ul style="list-style-type: none">○ Designated supervisors may record action taken in supervisory logs, Daytimers, memos to employees' files, etc.○ Compliance may record action by memo to the employee's file

2.17.1 Use Of Firm Name

No employee may use SAMCO's name in any manner which could be reasonably misinterpreted to indicate a tie-in between SAMCO and any outside activity of the employee.

2.17.2 High Pressure Sales Tactics

SAMCO and its RRs will not engage in high pressure sales tactics which may include excessive telephone calls, implying that a price may change on a security if the customer doesn't act immediately, or falsely representing that there is a limited supply of a security at a particular price.

2.17.3 Providing Tax Advice Not Permitted

Employees may not give tax advice to customers since SAMCO and its employees are not engaged in the practice of providing tax advice. Customers requiring specific tax guidance should be referred to their personal tax advisers.

2.17.4 Rebates Of Commission

[FINRA Rule 2420]

Employees are prohibited from rebating to anyone, directly or indirectly, any commission or compensation received.

2.17.5 Sharing Commissions Or Fees With Non-Registered Persons

[FINRA Rule 2420]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Payroll/commissions reports• Requests to share commissions
Frequency	<ul style="list-style-type: none">• Ongoing (payroll/commission reports)• As required (requests)
Action	<ul style="list-style-type: none">• Designated Supervisor:<ul style="list-style-type: none">○ Refer all requests to Compliance for approval○ Discontinue any unapproved arrangements identified until they are approved• Compliance will notify Accounting regarding approved commission sharing arrangements
Record	<ul style="list-style-type: none">• Accounting will retain a record of Compliance's approval of commission sharing arrangements

With few exceptions, regulations generally prohibit the sharing of commissions or compensation with non-registered persons. Any payment or sharing arrangement to a non-registered person must be referred to Compliance for review.

2.17.6 Settling Complaints Or Errors Directly With Customers

Employees may not make payments to customers of any kind to resolve an error or customer complaint. Errors and complaints must be brought to the attention of the employee's designated supervisor.

2.17.7 Borrowing From And Lending To Customers

Registered employees are generally not permitted to borrow from or lend to their own customers. "RR" as used in this policy refers to **any** registered employee of SAMCO.

This restriction does NOT apply when an employee enters into a loan arrangement with a customer who is:

1. an immediate family member (defined as parents; grandparents; in-laws; spouse; siblings; children; grandchildren; cousins; aunts or uncles; nieces or nephews; and any other person whom the RR supports, directly or indirectly, to a material extent);
2. a financial institution in the business of providing credit, financing, or loans AND where the terms of the lending arrangement are those that would also be available to the general public doing business with those institutions;
3. another registered employee of SAMCO;
4. someone (or an entity) who has a personal relationship with the RR and the lending arrangement arises from the personal relationship rather than an RR/customer relationship; or,
5. someone (or an entity) that has a business relationship outside the RR/customer relationship.

Any proposed loan with the RR's customer (other than a loan with a family member or financial institution in item numbers 1 and 2 above) requires the PRIOR review and approval by Compliance. RRs requesting exceptions must complete the RR/Customer Lending Arrangement Request form and submit it to Compliance prior to effecting the loan arrangement. Compliance will retain written approvals for at least 3 years after the date that the borrowing or lending arrangement has terminated or for at least 3 years after the RR has terminated employment with SAMCO.

2.17.8 Personal Funds Deposited In Customer Accounts

In general, employees are not permitted to deposit personal funds or securities in customers' accounts or deposit customers' personal funds or securities in employee accounts. The same prohibitions apply to withdrawals. Exceptions should be reviewed by Compliance.

2.17.9 Prohibition Against Guarantees

[FINRA Rule 2150]

SAMCO and its employees are prohibited from guaranteeing a customer against loss in any securities transaction. Designated supervisors are responsible for identifying prohibited guarantees in correspondence or other written communications with public customers. Options or written agreements that establish the future price of a transaction such as repurchase agreements are not included in this prohibition.

2.17.10 Fees And Other Charges

Employees are not permitted to charge fees or assess other charges to customers or customers' accounts unless they are expressly permitted by SAMCO.

2.17.11 Customer Signatures

Employees are not permitted to sign documents on behalf of customers, even when doing so is meant to accommodate a customer's request. Customer signatures must be original by the customer on all documents.

2.17.12 Rumors

[FINRA Rule 6140(e)]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
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Resources	<ul style="list-style-type: none"> Correspondence (electronic or written)
Frequency	<ul style="list-style-type: none"> Daily Periodically - training
Action	<ul style="list-style-type: none"> As part of routine reviews of correspondence, look for communications that appear to spread rumors <ul style="list-style-type: none"> Contact RR regarding source of information If false rumors are identified, contact Compliance Corrective action may include contacting recipients of correspondence containing false rumors; enhanced training for RR; disciplinary action appropriate to the offense For scheduled training, include the prohibition against spreading false rumors
Record	<ul style="list-style-type: none"> Correspondence with record of reviewer's initials and action taken, if appropriate Record of training sessions (who attended, dates conducted, subject matter included)

No employee may spread any rumors or misinformation that the employee knows to be false or misleading. This includes rumors of a sensational character that might reasonably be expected to affect market conditions. Discussion of unsubstantiated information published by a widely circulated public media is not prohibited providing the source and unsubstantiated nature are also disclosed.

2.17.13 Misrepresentations

Employees may not disseminate any information that falsely states or implies guarantees or approval of securities by the government or other institution such as government guarantee of securities that carry no such guarantee. SIPC may not be misrepresented as a guarantor of a customer's account against losses from transactions.

2.17.14 Bribes

No employee may offer or solicit explicit inducements to or from employees or 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 and are discussed in the section *Gifts, Gratuities And Entertainment*.

2.17.15 Acting Without Registration

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> New account forms Notices of registration status from Compliance Reports of transactions effected by RRs not licensed in the customer's state of residency
Frequency	<ul style="list-style-type: none"> Ongoing
Action	<ul style="list-style-type: none"> Review new account forms to identify any out-of-state accounts where the RR may not be registered Review reports of transactions identifying unlicensed activity and follow up with RR

	<ul style="list-style-type: none"> • Immediately refer any RRs requiring state registration to Compliance
Record	<ul style="list-style-type: none"> • Include a notation on the New Account form or report noting action taken • Supervisor's log, daytimer, or other record, as needed

No employee may engage in activities that require registration (selling securities, soliciting accounts, trading, *etc.*) unless registered in the appropriate capacities. Questions regarding the need for registration should be referred to Compliance.

2.18 Electronic Communications Policy

This policy governs the use of electronic communications by employees including part-time employees and independent contractors. It applies during business hours and after-business hours. The Employee handbook also has restrictions regarding communications. ***This is an important policy; employees will be required to certify annually that they are familiar with and will comply with the policy.***

1. Firm electronic systems or communications devices are for firm business purposes and business communications must conform to accepted business standards and regulatory requirements.

- Inappropriate communications (profanity, obscenity, threats, otherwise offensive content) are prohibited. Report threatening or harassing communications to Compliance.
- Communications must include current and valid information.
- Copyrighted material cannot be sent unless authorized; contact Compliance for assistance.
- Copyrighted software cannot be copied or transmitted to others unless authorized.
- References and/or links to web sites may be a form of sales literature or advertising requiring Compliance approval prior to use.
- Communications that must be accompanied by a prospectus may not be sent electronically unless the prospectus is available as an electronic attachment or an electronic link is provided to access the prospectus.

2. Electronic business communications must be accessed and transmitted only through firm-sponsored systems.

- Regulators require retention of business communications and firm systems are designed to comply with retention requirements.
- Approved firm-sponsored systems include:
 - E-mail and e-faxes through desk-top computers in Firm offices (the use of personal e-mail accounts for business communications is prohibited without prior approval)
 - PDAs (personal digital assistants such as Blackberrys) issued by SAMCO
 - Instant messaging limited to Compliance-approved departments or employees
 - Compliance-approved external systems/computers (requires specific approval for departments and/or employees)
 - Internal systems for internal-use only (employees are notified of appropriate use of internal-use systems)
- Encryption of information may be required by SAMCO; employees may not independently encrypt communications on firm systems.

3. Consider electronic communications as public communications; protect confidential information.

- Do not confuse phone conversations or face-to-face communications with electronic communications. Your electronic conversation is subject to review and retention and may be the subject of subpoena in a civil or regulatory action.

- Confidential communications must not be sent on portable devices in public places unless encrypted.
- Do not view confidential information where unauthorized persons may have access (elevators, other public places).
- Safeguard portable devices to avoid unauthorized access to firm business.
- Safeguard passwords.
- Close open pages and sign out when the device is not in use.

4. There are restrictions on unsolicited e-mails under the CAN-SPAM Act of 2003.

- Unsolicited "mass" commercial e-mails are prohibited.
- "Commercial" e-mail includes any electronic messages that send a commercial advertisement or promote a commercial product or service. It does not include e-mail where there is an existing business relationship.
- Recipients may "opt-out" of receiving future e-mails. Forward such requests to Compliance.
- "Address harvesting" or "dictionary attacks" may not be used to obtain e-mail addresses off the Internet.
- E-mails sent from firm systems will include required identification of SAMCO and disclosures or disclaimers.

5. Social media sites, blogs, and other electronic forums or communications systems may NOT be used for business communications.

Employees may not participate in social networking sites (Facebook, LinkedIn, Twitter, etc.), chat rooms, message boards, web logs, blogging, or other electronic forums or external communications systems for business communications.

6. Electronic communications will be reviewed, monitored and audited by SAMCO.

- All electronic communications are subject to review and retention.
- Communications that require pre-use approval may not be transmitted prior to review by the designated supervisor. This includes:
 - Communications to be sent to 25 or more investors within any 30 calendar-day period and that make any financial or investment recommendation or otherwise promote a product or service.
 - Communications that must be accompanied by a prospectus (Compliance approval required).
 - Advertising, sales literature, and market letters (Compliance approval required).

7. Use of the Internet related to SAMCO's business is subject to restrictions.

- Employees are prohibited from posting information to the Internet without prior firm approval.
- Accessing offensive sites is prohibited. SAMCO may block sites that are offensive or contrary to the conduct of business.

2.19 Electronic Communications Policy

This policy governs the use of electronic communications by employees including part-time employees and independent contractors. It applies during business hours and after-business hours.

This is an important policy; employees will be required to certify annually that they are familiar with and will comply with the policy.

1. Firm electronic systems or communications devices are for firm business purposes and business communications must conform to accepted business standards and regulatory requirements.

- Inappropriate communications (profanity, obscenity, threats, otherwise offensive content) are prohibited. Report threatening or harassing communications to Compliance.

- Communications must include current and valid information.
- Copyrighted material cannot be sent unless authorized; contact Compliance for assistance.
- Copyrighted software cannot be copied or transmitted to others unless authorized.
- References and/or links to web sites may be a form of sales literature or advertising requiring Compliance approval prior to use.
- Communications that must be accompanied by a prospectus may not be sent electronically unless the prospectus is available as an electronic attachment or an electronic link is provided to access the prospectus.

2. Electronic business communications must be accessed and transmitted only through firm-sponsored systems.

- Regulators require retention of business communications and firm systems are designed to comply with retention requirements.
- Approved firm-sponsored systems include:
 - [accepted forms of electronic communications]
- Encryption of information may be required by SAMCO; employees may not independently encrypt communications on firm systems.
- Home computers or other personal devices and external systems may not be used for business purposes (unless specifically approved by Compliance).

3. Consider electronic communications as public communications; protect confidential information.

- Do not confuse phone conversations or face-to-face communications with electronic communications. Your electronic conversation is subject to review and retention and may be the subject of subpoena in a civil or regulatory action.
- Confidential communications must not be sent on portable devices in public places unless encrypted.
- Do not view confidential information where unauthorized persons may have access (elevators, other public places).
- Safeguard portable devices to avoid unauthorized access to firm business.
- Safeguard passwords.
- Close open pages and sign out when the device is not in use.

4. There are restrictions on unsolicited e-mails under the CAN-SPAM Act of 2003.

- Unsolicited "mass" commercial e-mails are prohibited.
- "Commercial" e-mail includes any electronic messages that send a commercial advertisement or promote a commercial product or service. It does not include e-mail where there is an existing business relationship.
- Recipients may "opt-out" of receiving future e-mails. Forward such requests to Compliance.
- "Address harvesting" or "dictionary attacks" may not be used to obtain e-mail addresses off the Internet.
- E-mails sent from firm systems will include required identification of SAMCO and disclosures or disclaimers.

5. Participation in social media sites, blogs, and other electronic forums or communication systems is permitted with certain requirements and restrictions.

- Participants must receive prior approval from the designated supervisor and complete required training.
- Approved participants will be required to certify, upon completion of training and annually thereafter, their understanding of and compliance with SAMCO's policies and procedures.
- Postings may require the prior approval of the designated supervisor depending on the type of participation.

- Media and systems used must be able to provide a permanent record of communications for retention by SAMCO.
- SAMCO will monitor and review such communications.

Refer to the section *Social Media, Blogs, Web Sites And Other Electronic Communication Systems* in the chapter *COMMUNICATIONS WITH THE PUBLIC* for SAMCO's policy on social media.

6. Electronic communications will be reviewed, monitored and audited by SAMCO.

- All electronic communications are subject to review and retention.
- Communications that require pre-use approval may not be transmitted prior to review by the designated supervisor. This includes:
 - Communications to be sent to 25 or more investors within any 30 calendar-day period and that make any financial or investment recommendation or otherwise promote a product or service.
 - Communications that must be accompanied by a prospectus (Compliance approval required).
 - Advertising, sales literature, and market letters (Compliance approval required).

7. Use of the Internet related to SAMCO's business is subject to restrictions.

- Employees are prohibited from posting information to the Internet without prior firm approval.
- Accessing offensive sites is prohibited. SAMCO may block sites that are offensive or contrary to the conduct of business.

2.19.1 Failure To Comply

Failure to comply with this policy may lead to disciplinary action. Non-compliance may generate one or more of the following:

- Oral and/or written warning or notification
- Education/training
- Suspension of electronic communications privileges permanently or for a set period of time
- Regulatory discipline
- Suspension or termination of employment
- Other actions as described in the Employee Handbook

2.19.2 Consent To Policy

Use of SAMCO's electronic communications systems represents the employee's consent to the terms outlined in this Policy, including consent for SAMCO to monitor and audit content and/or usage.

2.20 Mobile Devices

Mobile computer devices such as (but not limited to) smartphones, Blackberrys and tablets are subject to the following requirements and restrictions:

- The use of mobile devices is limited to those issued and authorized by the Firm.

2.21 Advertising And Publishing Activities

Prior to issuing any advertising or writing any books, articles, newsletters, or other materials to be published in public media (magazines, newspaper, computer bulletin boards, Internet, etc.) for public access, employees must contact Compliance for review and approval. Approval is not required for use of SAMCO-issued research or other materials approved by SAMCO and intended for public distribution.

2.22 Employees Acting As Trustees, Executors, Or Other Fiduciary Capacities

Employees usually will not act in a fiduciary capacity (e.g., trustee, executor) for a customer's account unless the account is for a relative of the employee. Exceptions require the approval of Compliance who should be notified by written memo requesting the exception and the reasons for the exception.

2.23 Use Of Titles

Employees may not use titles unrelated to their activities with SAMCO. The use of any other title requires the prior approval of Compliance. Examples of the types of titles not specifically related to SAMCO's activities include (but are not limited to) C.P.A., J.D., M.B.A., or Attorney at Law.

2.24 Annual Certification

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Annual certification form
Frequency	<ul style="list-style-type: none">• Annual
Action	<ul style="list-style-type: none">• Send forms to employees for completion• Review completed forms• Take appropriate action which may include:<ul style="list-style-type: none">○ Inquiring regarding reported outside business activities○ Inquiring regarding reported outside securities accounts○ Conferring with the employee and/or employee's supervisor for any other reported information requiring follow up○ Filing updates to the employee's Form U4, if necessary
Record	<ul style="list-style-type: none">• Annual certifications are retained in an annual file for employee certifications

SAMCO will, on an annual basis, ask employees to complete an Annual Certification form. The purpose of this form is to ensure SAMCO's records are current regarding items to be reported to SAMCO (outside business activities, outside accounts, *etc.*).

3 TRAINING AND EDUCATION

3.1 Annual Compliance Meeting

[NASD Rule 3010(a)(7); FINRA Interpretive Letter November 30, 2006 to Evan Charkes of Citigroup regarding webcasts]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• List of RRs and registered principals by branch, department, or for SAMCO
Frequency	<ul style="list-style-type: none">• Annual
Action	<ul style="list-style-type: none">• Determine appropriate subjects to include in meetings, depending on RRs and principals who are participants• Conduct compliance meetings or interviews with RRs and principals• If electronic media is used to conduct meetings, designate a local supervisor to complete an attendance record to ensure RRs and principals arrive on time and attend the entire meeting• Ensure all subject RRs and principals complete the required annual meeting or interview• For RRs and principals who do not complete the requirement, take corrective action which may include contact with the RR's or principal's supervisor; limitation on business activities until the requirement is completed; other corrective action determined as appropriate for the circumstances
Record	<ul style="list-style-type: none">• A record of when and where meetings are conducted, subjects discussed, and who attended is retained by Compliance• A record of corrective action is retained in the RR's or principal's file

As required by FINRA rules, RRs and registered principals are required to attend an annual compliance meeting or interview.

3.2 Continuing Education

[FINRA Rule 1250]

Registered employees are subject to SRO continuing education requirements composed of two distinct elements. Registered employees are required to complete both elements at specified time intervals. The two elements are:

Regulatory Element: This element is a computer-based training program that focuses on compliance, regulatory, ethical, and sales practice standards. Its content is derived from rules and regulations as well as standards and practices widely accepted within the industry. This element is administered at designated testing centers or through an in-firm program.

Firm Element: All registered employees dealing with public customers and their supervisors are required to complete continuing education administered by SAMCO.

3.2.1 Regulatory Element

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• CRD Firm Queues and related reports

	<ul style="list-style-type: none"> • CRD e-mail notifications of inactive registrations
Frequency	<ul style="list-style-type: none"> • Ongoing
Action	<ul style="list-style-type: none"> • Review CRD Firm queue • Request queue reports • Notify affected persons of requirements • Schedule computer based training • Review CRD e-mail notifications of inactive registrations • Notify designated supervisors of restricted persons
Record	<ul style="list-style-type: none"> • Queue reports, e-mail notices, and records of notifying employees are maintained in registration files

3.2.1.1 Who Is Subject To The Requirements

All registered persons are subject to the regulatory element.

3.2.1.2 When Requirements Must Be Completed

The regulatory element is to be completed within 120 days of the 2nd anniversary of the individual's original registration date and every three years thereafter. For registered persons who become subject to statutory disqualification or disciplinary action as defined under the rules, the regulatory element must be completed within 120 days of the posting date of the disciplinary action and every three years after that date.

3.2.1.3 Regulatory Element Contact Person

[FINRA Rule 1250(a)(7)]

Compliance or a designated person responsible for registration will notify FINRA of the name and email address of the contact person to receive CRD notices. Changes will be reported within 30 days of the change. Annually, by the 17th business day following the end of the calendar year, the contact person information will be reviewed and updated, if necessary.

3.2.1.4 CRD Notices And Appointments For Training Sessions

Compliance is responsible for: (1) notifying employees of pending Regulatory Element requirements; and, (2) scheduling training sessions at designated training centers. CRD notices are retained in the registered person's registration file.

3.2.2 Firm Element

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Information regarding firm products, services, training needs • Guidance from regulators • Current regulatory concerns • Disciplinary actions • Third Party training resources
Frequency	<ul style="list-style-type: none"> • Annual and ongoing
Action	<ul style="list-style-type: none"> • Develop needs analyses; training plans; and training materials • Identify employees who are subject to the requirement (covered persons)

	<ul style="list-style-type: none"> • Monitor completion of requirements • Restrict covered persons who do not complete requirements
Record	<ul style="list-style-type: none"> • Needs analyses; training plans; training materials • Dates of training, contents of training, lists of attendees • Copies of training material used • Records (memos, notes, <i>etc.</i>) of actions restricting covered persons

3.2.2.1 Who Is Subject To The Requirements

All registered persons who do business with the public and their supervisors are subject to the firm element. Firm element continuing education is required regardless of the length of registration or employment in the securities industry.

3.2.2.2 Firm Requirements

SAMCO is required to:

- identify job functions and persons subject to the requirement
- prepare an annual needs analysis including gathering information about products and services and training topics
- determine training objectives
- develop a written training plan
- implement the training plan
- retain a record of participation
- restrict covered persons who do not complete the requirement

SAMCO's internal program may include videos, computer training, in-person presentations, and other methods of conveying training material including a combination of methods. SAMCO may not solely rely on teleconferences or other remote training methods.

3.2.2.3 Annual Needs Analysis

An annual needs analysis is prepared for covered persons.

In developing the needs analysis, the following methods will be used:

- Questionnaires will be provided to key managers in business and other areas including Legal and Compliance and responses will be considered in topics to be included
- Feedback from regulators including recent audits, regulatory alerts, and CE feedback will be evaluated
- Customer complaints, arbitrations, and other litigation involving the firm will be evaluated
- New business lines or marketing strategies will be evaluated

Needs analyses will be completed during the first quarter of the year.

3.2.2.4 Evaluating The Firm Element Program

Participants are asked to complete an evaluation form to evaluate the effectiveness of the firm element continuing education program. These evaluations are considered when designing the next year's continuing education program.

3.3 Registered Persons Who Fail To Complete Requirements

Registered persons who fail to complete the requirements of continuing education cannot conduct any duties that require registration or earn commissions or other compensation related to such activities. Registrations are considered "inactive" until continuing education requirements are completed.

The designated supervisor will notify affected persons and their supervisors by phone and written memorandum when their registration becomes inactive and when the requirement is satisfied and inactive status is lifted. Accounting/Commissions also will be notified by memorandum. Copies of memos will be retained in the individual's registration file.

4 EMPLOYMENT, REGISTRATION AND LICENSING

4.1 Employment

4.1.1 Hiring Procedures

[FINRA Regulatory Notice 07-55]

This section outlines hiring requirements.

4.1.1.1 RR Interview Guidelines

[FINRA Notice to Members 07-06]

At the time an RR is being considered for hire, the following are areas the hiring manager should consider:

1. Discuss with the applicant the nature of the applicant's prior customers and the types of securities sold while associated with prior employers. If customers' investments include investment company products (mutual funds, variable annuities), determine whether SAMCO has dealer or servicing agreements in place and, if not and the RR is hired, plan for suitability reviews and notification to customers of investment options and costs of switching investments.
2. Obtain the applicant's explanations regarding any customer complaints and regulatory actions to determine the merit, to the extent practicable, of each before hiring.
3. Ask the applicant about the existence of and nature of any pending proceedings, customer complaints, regulatory investigations, or arbitrations not listed in the CRD.
4. Discuss the reasons for the applicant's frequent change of employers, if applicable.
5. Ask the RR whether he or she signed an employment contract with the present employer and if so, obtain a copy from the RR.

4.1.1.2 Prospective RRs Require Pre-Clearance By Compliance

Information regarding RRs who are being considered for hire should be referred to Compliance for review of the individual's CRD record. This review requires the written permission of the RR. The RR may sign page 4 of Form U4 or a separate form. Information regarding complaints, regulatory actions, and other information determined by Compliance will be referred to the hiring manager for consideration in extending an offer of employment.

4.1.1.3 Qualification Of Supervisors

[NASD Rule 1014(a)(10)(D) and 3010(a)(6)]

Responsibility	<ul style="list-style-type: none">• Hiring Supervisor - confirm qualifications• Compliance - determine registration requirements
Resources	<ul style="list-style-type: none">• Individuals identified as potential supervisors• Background information on candidate including registration status
Frequency	<ul style="list-style-type: none">• As required when a supervisory position is to be filled
Action	<ul style="list-style-type: none">• Hiring supervisor:<ul style="list-style-type: none">○ Evaluate candidate's qualifications including experience and knowledge○ Arrange for training, if necessary• Compliance:

	<ul style="list-style-type: none"> ○ Confirm individual has required registration qualifications and, if not, arrange for the individual to complete the required exams ○ Notify the hiring supervisor of added qualifications required and remind him/her the individual may not act as a supervisor until necessary registrations are obtained (unless a regulator allows for a grace period to act as a supervisor before registration is completed) ○ Provide supervisory policies/procedures to the candidate if not already available to him/her
Record	<ul style="list-style-type: none"> • Hiring manager's consent to appoint the candidate to a supervisory position • Background and registration information in candidate's file • Record of training (if necessary) including a description of training and when completed • Record of providing supervisory policies/procedures

The manager who hires or appoints a supervisor is responsible for determining that the individual is qualified for the supervisory position. Individuals included in SAMCO's business plan filed with FINRA are required to have at least one year of direct experience or two years of related experience in the area to be supervised.

4.1.1.3.1 Multiple CCO Designations

[FINRA Rule 3130.02]

[FINRA Rule 3130.02]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Proposed multiple CCOs
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Confirm principal status of candidate • Document areas of responsibility and provide to each CCO and his/her supervisor • Confirm each CCO meets the requirements of Rule 3130 • Coordinate multiple annual compliance reports to the CEO
Record	<ul style="list-style-type: none"> • Records of qualification review • Documentation of areas of responsibility and provision to CCO and supervisor

If SAMCO designates multiple chief compliance officers (CCOs), it will meet the following requirements:

- CCOs will be designated on Schedule A of Form BD.
- Each designated CCO is a principal.
- Each CCO's areas of compliance responsibility are defined and documented with identification of primary responsibility in areas that overlap.
- Each CCO meets the requirements of Rule 3130 regarding the defined area of primary compliance responsibility.
- The designated CCOs have the responsibilities and expertise enabling them to consult with the CEO on the totality of subject matters included in certification requirements.

4.1.1.4 Background Investigation

[NASD Rule 3010(a)(6) and 3010(e)]

SAMCO will conduct a background investigation for all new employees including the following:

- Contact with at least the last three years' employers
- For registered persons, obtain a copy of and review the RR's Form U5 from the prior firm or inquire for the U5 information through the Web CRD system; review the form within 60 days of the filing date of an application for registration or record that a reasonable effort has been made to conduct the review
- For registered persons who were employed with an FCM (Futures Commission Merchant) or IB (Introducing Broker) registered as a commodities firm but "notice-registered" with the SEC because of security futures business, obtain and review a copy of CFTC Form 8-T, Notice of Termination of Associated Person, NFA Associate, Branch Office Manager, Designated Supervisor or Principal
- Any "Yes" answers or termination for cause on Form U5 or similar information reported on CFTC Form 8-T that were not previously known will be reviewed by Compliance
- Other background checks including credit checks, criminal, and sex offender

A record of contacting prior employers will be included on the RR's Form U4 and/or in the RR's personnel or registration file. A copy of Form U5; the Web CRD inquiry; or CFTC Form 8-T will be maintained in the RR's file and will include the date of review and the reviewer's initials.

4.1.1.5 Fingerprints

[SEC Securities Exchange Act of 1934 Rule 17f-2; FINRA Rule 1010(d)]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Notifications regarding registration and other applicants
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• If necessary, identify third parties (local law enforcement officials, <i>etc.</i>) to take fingerprints and:<ul style="list-style-type: none">○ Notify the third parties of securities industry fingerprinting requirements including identification verification procedures○ Provide applicants with a list of acceptable third-party vendors• Submit electronic filing to CRD• Obtain Fingerprint Attestation and fingerprints, compare signatures of applicant and note on Attestation• Submit fingerprints to CRD with barcode• If fingerprints are not received by the CRD within 30 days of filing Form U4, notify appropriate supervisor that activities requiring registration must cease
Record	<ul style="list-style-type: none">• Registration files for employees include records of CRD filings and submission of fingerprints including Fingerprinting Attestation form

Compliance will obtain and submit fingerprints on all registered personnel for receipt by the CRD within 30 days of filing Form U4. Fingerprints for other personnel will be obtained and submitted by Human Resources. A Fingerprinting Attestation form will be completed for each applicant.

If fingerprints are not received by the CRD within 30 days, the employee must cease engaging in activities that require registration. Compliance will notify the appropriate supervisor of deficiencies, and the supervisor is responsible for restricting the applicant's activities until fingerprints have been received by the CRD.

4.1.1.6 Policies And Procedures

At the time of hire, Compliance will provide the RR with a current copy of SAMCO's policies and procedures either in hard copy or by notifying the RR of the location of policies and procedures in electronic form. The RR will be asked to acknowledge, in writing or electronically, that the policies were received and that the RR is responsible for complying.

4.1.1.7 Enhanced Compensation

[SEC Chairman letter to broker-dealers dated August 31, 2009: <http://www.sec.gov/news/press/2009/2009-189-letter.pdf>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Details of RR compensation agreements
Frequency	<ul style="list-style-type: none"> • As required when RRs are hired with enhanced compensation agreements
Action	<ul style="list-style-type: none"> • Determine the terms of any enhanced compensation • Where commission targets or higher payouts on specific securities or products are included in compensation arrangements, include consideration of those incentives in regular reviews of the RR's business during the term of the compensation agreement to identify any improper activity to maximize commissions such as churning or unsuitable recommendations • Where potential improper activities are identified, take corrective action which may include conferring with the RR, conferring with Compliance, contacting customers, cancelling transactions, or any other corrective action deemed appropriate for the situation
Record	<ul style="list-style-type: none"> • Compensation agreements • Review of RR transactions including notation of corrective action taken, where appropriate

SAMCO may hire experienced RRs from other broker-dealers and offer enhanced compensation to attract qualified individuals for employment and to assist in the transition period when an RR moves from another firm. Compensation agreements may include up-front bonuses, higher payouts for a period of time, payment of licensing fees (where SAMCO otherwise would not pay them), and other enhanced compensation determined at the time an offer is made.

4.1.2 Termination Procedures

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Notification from RR or supervisor of termination
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Immediately notify Compliance of terminating registered employees Immediately notify Compliance of terminating non-registered employees where termination was caused by theft or fraud Immediately notify Human Resources of terminating registered and non-registered employees Secure computers and computer files Retrieve office keys, company credit cards, <i>etc.</i> from terminated employee Reassign accounts Compliance will file Form U5 for terminating RRs Compliance will provide the terminated RR with a copy of the RR's Form U5 within 30 days of termination
Record	<ul style="list-style-type: none"> The CRD retains copies of Form U5

4.1.2.1 Notification To Compliance

Whenever an employee terminates employment from SAMCO, the designated supervisor is responsible for immediately notifying Compliance and Human Resources. Notification to Compliance regarding registered employees should include:

- Name of terminated person and RR number(s)
- Type of termination (voluntary, permitted to resign, discharged, *etc.*)
- If the termination is not voluntary, an explanation of the reason for termination
- Date of termination
- Any known compliance problems at the time of termination

4.1.2.2 Securing And Retrieving Firm Property

Designated supervisors are responsible for retrieving SAMCO property from terminated employees including office keys, company credit cards, computer files, customer files, and any other items which are the property of SAMCO.

4.1.2.3 Reassignment Of Accounts

Designated supervisors are responsible for reassigning the accounts of terminated RRs.

4.1.2.4 Responding To Customer Inquiries

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

4.1.2.5 Form U5

Compliance is responsible for filing Form U5 for any terminated registered employee. Compliance will also send, within 30 days of termination, a copy of Form U5 to the former employee.

4.2 Registration And Licensing

[FINRA Corporation By-Laws Article V; NASD Rule 1000-1150; FINRA Regulatory Notice 07-41; FINRA Information Notice February 21, 2008; NASDAQ Rule 1000 series]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• New hire notices• Change of status notices• Requests for registration• CRD Late Filing Fee Report
Frequency	<ul style="list-style-type: none">• Quarterly - review CRD Late Filing Fee Report• As required for new hires and requests for registration
Action	<ul style="list-style-type: none">• Identify employees who require registration by reviewing new hire or change of status records• Submit required filings to the CRD• Acknowledge electronic filings are on behalf of SAMCO and its employees• Request and schedule examinations• Ensure employees who require registrations obtain them• Amend U4s or U5s when there are reportable events• Review the CRD Late Filing Fee Report to identify late filings and to take corrective action
Record	<ul style="list-style-type: none">• Registration records including CRD notices, approvals, amendments, and other registration records are maintained in employee files<ul style="list-style-type: none">◦ Where the registered person's signature is not required on U4 amendments, SAMCO may rely on the CRD for recordkeeping• The CRD Late Filing Fee Report is retained in a CRD report file with initials of who reviewed and date reviewed and any action taken

4.2.1 CRD Electronic Filings

[FINRA Rule 1010]

SAMCO has designated one or more employees with authority over registration functions, as named in SAMCO's *Designation Of Supervisors* chart. Any supervisor of electronic filings is a registered principal or a corporate officer and is responsible for review and approval of electronic filings and acknowledging electronically that the forms are filed on behalf of SAMCO and its associated persons.

4.2.2 Dual Registration

RRs may be registered with another broker-dealer resulting in dual registration. For those with dual registration, the following procedures will apply:

- Dual registration must be approved by Compliance.

4.2.3 Registration Requirement

All individuals engaged in activities (including selling or trading products such as stocks, bonds, options, insurance, etc.) subject to registration requirements of SROs or other regulators must

complete the necessary registration and licensing prior to engaging in such activities. Employees may not conduct business with public customers until required registrations or licenses are effective.

RRs who assume duties that require registration with FINRA as a principal, have 90 calendar days to pass the appropriate principal's examination.

4.2.4 Requests For Waivers

[FINRA Rule 9600]

Regulators seldom grant waivers of training period requirements or examinations. In those very few instances where waivers are granted, the candidate must be able to demonstrate comparable work experience or other successfully completed examinations that could, in the view of the regulator, constitute satisfying their requirements.

Any requests for waivers will be submitted by Compliance.

4.2.5 State Registrations

RRs must be registered in the state from which they conduct business and may be required to be registered in other states where customers are domiciled. Most states require successful completion of the Series 63 Uniform State Agent Securities Law Examination. Successful completion of the exam does not automatically confer registered status on the examinee. Application must be made to the CRD to obtain each state registration.

The designated supervisor is responsible for identifying transactions in states where registration may be required.

4.2.6 Parking Registrations

[NASD Rule 1031(a)]

SAMCO does not permit individuals to "park" licenses. Parking occurs when SAMCO maintains a registration on behalf of an individual who does not work for SAMCO or who does not need that registration for his or her job function. Registration status is retained only for those persons where it is required. SAMCO may, however, maintain registration for legal, compliance, or other non-sales employees as permitted under regulators' rules.

4.2.7 Form U4

[FINRA Rule 1010 and 2263]

All applicants for registration are required to complete Form U4. It is the RR's responsibility to include accurate information and promptly notify SAMCO of any updates that may require amendment to Form U4.

At the time a new or amended U4 is signed, the applicant will be provided the *Form U4 Disclosure To Associated Persons*, which discloses information about the predispute arbitration clause included in Form U4.

4.2.8 Amendments To Form U4 Or Form U5

SAMCO will submit amendments to Form U4 when an RR advises of updates that require amendment. Compliance is responsible for determining whether reportable events or other matters require the filing of an amendment to an RR's Form U4. Compliance is also responsible for identifying disciplinary or complaint matters to be reported on Form U5 termination notices including amendments required after termination. Required reportable events include the receipt of an SEC Wells notice.

The Compliance Department is responsible for providing requested information.

4.2.9 Assignment Of RR Numbers

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

4.3 Statutorily Disqualified Persons

[SEC Securities Exchange Act of 1934 Rule 19h-1 and Section 3(a)(39); FINRA By-Laws, Article III Section 3 and Section 4; FINRA Regulatory Notice 09-19]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• N/A
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Compliance will:<ul style="list-style-type: none">○ Complete the required regulatory forms○ Establish procedures for conducting required supervision• The designated supervisor will:<ul style="list-style-type: none">○ Conduct required supervision○ Provide Compliance with certifications of supervision, if required
Record	<ul style="list-style-type: none">• Regulatory applications/forms and related documents are retained in the RR's file in Compliance• Certifications of supervision, if required, are retained in the RR's file in Compliance

4.3.1 Introduction

Individuals may become subject to statutory disqualifications as a result of a felony conviction or regulatory suspension, revocation of registrations or injunctions (including actions by domestic regulators including the CFTC and actions by foreign regulators). The definition of statutory disqualification is included in Section 3(a)(39) of the Securities Exchange Act of 1934. FINRA Regulatory Notice 09-19 includes a chart, in Attachment B, that outlines statutory disqualifications under the Rule.

4.3.2 Hiring A Statutorily Disqualified Person

All prospective employees (including those engaged solely in clerical and/or ministerial activities) are subject to background investigations that include identification of potential statutory disqualification. Prior to hiring an individual subject to a statutory disqualification, Compliance should be consulted to review the nature of the statutory disqualification and potential special supervision that may be required upon hiring.

4.3.3 Regulatory Filings

Compliance is responsible for completion and filing of the appropriate regulatory form or application, which will be signed by a senior officer of SAMCO. A hearing may be required prior to approval of the

individual's association with SAMCO. The individual may not conduct any activities requiring registration until approval is received from the appropriate regulatory authorities.

4.3.4 Supervision

Compliance will establish procedures to carry out the supervision required under agreement with the SRO reviewing the disqualified person, including records of supervision to be conducted by the designated supervisor. The supervisor assigned to supervise the statutorily disqualified person will be provided a copy of the procedures and will be responsible for carrying them out.

4.3.5 Reporting Statutory Disqualifications

When an employee becomes subject to a statutory disqualification, Compliance will file the necessary registration updates and, in addition, the required notification on the quarterly complaint report will be made to regulators consistent with those SRO's reporting requirements.

4.4 Continuing Commissions Policy (Registration Not Retained)

[FINRA IM 2420-2; SEC no-action letter to SIFMA November 20, 2008]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests from retirees to continue commissions
Frequency	<ul style="list-style-type: none"> • As required - consider requests; obtain agreements • Annually <ul style="list-style-type: none"> ○ Obtain annual compliance certification from retired RR ○ Contact customers subject to the program
Action	<ul style="list-style-type: none"> • Determine RR's state of domicile permits paying continuing commissions without retaining registrations • Determine eligibility of RR • Obtain signed continuing commissions agreement from retiree • Notify designated supervisor and Accounting of agreement • Obtain annual compliance certification from retired RR • Contact customers subject to the program to verify the retired RR has not contacted them to discuss securities (sample includes a large percentage of high-net-worth customers) • Terminate arrangement no later than 5 years after retirement
Record	<ul style="list-style-type: none"> • Determination of RR's eligibility to participate • Signed agreement with RR • Annual compliance certification • Annual contact with customers to confirm the RR has not contacted them to discuss securities • Termination of RR's participation

RRs who retire may be eligible to participate in SAMCO's continuing commissions policy program. This program provides for the transfer of accounts from the retiring RR to another RR and gives the retiring RR the opportunity to provide support to the receiving RR as well as deal with customer transition issues. Retirees under the program sign a continuing commissions agreement and are eligible to earn commissions and other income through the term of the agreement.

The following conditions apply:

- Retirees must have been continuously employed with SAMCO for at least 3 years. (There are exceptions when an RR dies suddenly and his or her heirs participate in the program.)
- Retirees must have demonstrated professional conduct including a low incidence of customer complaints/arbitrations settlement or decided for more than \$25,000 in the 3 years prior to retirement or pending at retirement. If the retiree has been the subject of such complaints, SAMCO must determine that the complaints did not require disciplinary action or heightened supervision and the retiree was not at fault for improper sales practices. The retiree also must not have been subject to statutory disqualification during the 3 years prior to retirement.
- Retirees must contractually agree to cease all securities-related activities (cannot contact customers; cannot remain associated with any broker-dealer or investment adviser except for state registrations required to receive commissions; cannot take a job at a bank or insurance company that involves securities transactions).
- Retirees must obey all securities laws and regulations to the extent they remain applicable and must certify compliance annually.
- Receiving RRs (the RR to whom accounts are transferred) must be approved by the designated supervisor, have been in the industry for 3 years and at SAMCO for 1 year (with some exceptions) and must not have been subject to statutory disqualification during the prior 3 years.
- Continuing commissions are limited to 5 years after retirement.
- SAMCO will annually contact a sample of customers whose accounts are subject to the program (including a large percentage of high-net-worth customers) to ensure the retired RR has not contacted them to discuss securities.

4.5 Continuing Commissions Policy (RR Registrations Retained)

[FINRA IM 2420-2]

[FINRA IM 2420-2]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests from retirees to continue commissions
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Obtain signed continuing commissions agreement from retiree • Notify designated supervisor and Accounting of agreement
Record	<ul style="list-style-type: none"> • Signed agreement retained in retiring employee's file

RRs who retire may be eligible to participate in SAMCO's continuing commissions policy program. This program provides for the transfer of accounts from the retiring RR to another RR and gives the retiring RR the opportunity to provide support to the receiving RR as well as deal with customer transition issues. Retirees under the program sign a continuing commissions agreement; retain registration and licenses through SAMCO; and are eligible to earn commissions and other income through the term of the agreement.

The retiring RR continues to be subject to all the rules and regulations governing RRs and is subject to ongoing supervision by the RR's designated supervisor.

4.6 Broker-Dealer Registration

4.6.1 Form BD

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Information regarding reportable items including civil and regulatory

	actions <ul style="list-style-type: none"> Records regarding officers and directors to be included on Form BD Other information as required by Form BD
Frequency	<ul style="list-style-type: none"> As required - updates Quarterly - review for potential updates
Action	<ul style="list-style-type: none"> Prepare updates as required; consult with in-house or outside counsel, as required File Form BD updates At least quarterly review Form BD for potential updates
Record	<ul style="list-style-type: none"> File of BD amendments

Compliance is responsible for updating Form BD when necessary and filing with the required SROs and other regulatory agencies.

4.6.2 Change In Ownership, Control, Or Business Operations

[NASD Rule 1011(i) and 1017; FINRA IM 1011-1; FINRA Regulatory Notice 09-21; NASD Notice to Members 06-56; FINRA web site re mergers, acquisitions, and business transfers: <http://www.finra.org/Industry/Issues/Mergers/index.htm>; FINRA checklist for organizational change: <http://www.finra.org/RegistrationQualifications/MemberFirms/p014283>; NASDAQ Rule 1017]

When SAMCO anticipates a material change in its business, Compliance will file requests for approval by the appropriate SROs. Events that require approval include merger with or acquisition of another broker-dealer or acquisition of 25% or more of the assets of another dealer; a change in ownership or control; and a material change in business operations. In addition, material changes include removing or modifying a membership agreement restriction; market making for the first time; adding business activities that require a higher level of minimum net capital; and engaging in activities beyond proprietary trading as defined in NASDAQ rules.

Certain types of expansions are presumed to not be a "material change in business operations" and do not require FINRA approval. However, this safe harbor is not available to firms that, among other things, have a "disciplinary history" as defined in IM-1011-1. The interpretation must be consulted to determine what changes are not material and what constitutes disciplinary history precluding use of the safe harbor.

If SAMCO operates under a Restriction Letter, it will conduct business consistent with the Letter and Compliance will contact FINRA if a change is necessary.

4.6.3 Regulatory Contact Information

SAMCO is obligated to maintain current contact information with regulators.

4.6.3.1 FINRA and NASDAQ Contact Information

[NASD Rule 1160; FINRA Regulatory Notice 07-42; FINRA Contact System web page: <http://www.finra.org/Industry/Compliance/RegulatoryFilings/FCS/P005666>]

Updates to contact information will be made within 30 days following any change. In addition, by the 17th business day after the end of each calendar year, SAMCO is required to verify contact information through the FINRA Contact System.

Compliance will update the following information through FINRA's Contact System when necessary and will conduct the mandatory annual verification:

- Executive Representative [NASD By-Laws Article IV, Section 3 and Rule 1150; NASDAQ Rule 1150]
- Regulatory Element Continuing Education Contact Person [NASD Rule 1120]
- Emergency contact persons [FINRA Rule 4370]
- AML contact person(s) [FINRA Rule 3310.02]
- Other contacts mandated by FINRA rules

Contact information will be provided promptly to FINRA upon request, but no later than 15 days after the request.

4.6.4 Regulatory Filings

[NASD Rule 3170; FINRA Regulatory Notice 08-11; NASD Notice to Members 06-61]

SAMCO will submit regulatory filings electronically where required. Filing procedures are included in appropriate sections of this manual.

4.6.5 Reporting Requirements

[FINRA Rule 4530; FINRA Regulatory Notice 11-32]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Criminal, civil, and arbitration actions against SAMCO
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Determine whether information or events are reportable • File information [specified in Rule 4530(f)(1)] with FINRA; information will be filed within 30 calendar days after knowing of the event; copies of documents will be filed promptly
Record	<ul style="list-style-type: none"> • Record of filings

SAMCO will file information with FINRA for reportable events involving SAMCO under FINRA Rule 4530 within 30 calendar days of becoming aware of the reportable event. When SAMCO concludes SAMCO has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization, such reported violations will include only conduct that has widespread or potential widespread impact to SAMCO, its customers or markets, or conduct that arises from a material failure of SAMCO's systems, policies or practices involving numerous customers, multiple errors or significant dollar amounts.

Refer to the section *Reporting Possible Law Or Rule Violations* in the chapter *GENERAL EMPLOYEE POLICIES* for procedures addressing the identification of violations, escalation of internal reporting, and reporting of internal conclusions.

4.7 Heightened Supervision

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Form U4 information • CRD • Customer complaints • Regulatory actions • Other activity that may warrant heightened supervision, at the discretion of Compliance
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Compliance: <ul style="list-style-type: none"> ○ Identify employees subject to heightened supervision ○ Determine the scope of heightened supervision ○ Notify the employee's supervisor of required supervision ○ Collect certifications from supervisor • Designated supervisor: <ul style="list-style-type: none"> ○ Conduct required heightened supervision ○ Prepare and send certifications to Compliance
Record	<ul style="list-style-type: none"> • Reviews of employees for potential heightened supervision are retained in a "Heightened Supervision" file in Compliance • Memos and certifications pertaining to a specific employee are retained in Compliance's file for the employee

4.7.1 Introduction

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

4.7.2 Identifying RRs For Heightened Supervision

It is the responsibility of Compliance to identify RRs for potential heightened 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 heightened supervision.

4.7.3 Criteria For Identifying Candidates For Heightened Supervision

The following are criteria that will trigger a review by Compliance to determine whether an RR should be subject to heightened 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 heightened 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 past five years

4.7.4 Heightened Supervision Memorandum

When a candidate is identified for possible heightened supervision Compliance, in consultation with the RR's supervisor, will consider whether heightened supervision will be established. After the determination is made, Compliance will prepare a memorandum outlining action taken (or not taken).

Where it is determined that SAMCO's existing supervision is adequate to address oversight of the candidate, Compliance will document in the memorandum the reasons why existing supervision is adequate. Where it is decided heightened supervision will be conducted, Compliance will outline the supervision to be conducted (including type, frequency, time period of heightened supervision, and how supervision should be documented) and provide copies of the memorandum to the subject RR and the RR's supervisor outlining the terms of the heightened supervision. The RR and the supervisor will sign and return copies of the memorandum to Compliance.

4.7.5 Scope Of Potential Heightened Supervision

Heightened supervision will be established after considering the specifics that apply to the RR. Heightened supervision may take many forms and may include some of the following, to be determined by Compliance. This list does not limit or prescribe how heightened supervision should be structured for any one RR, since each case must be reviewed individually.

- Limits on type of business (option, futures, *etc.*)
- Limits on types of accounts (discretionary, certain age groups or other demographics, *etc.*)
- Verification with customers of new account information when accounts are opened
- Pre-approval of some or all trades entered
- Pre-approval of certain types of accounts
- Contact with customers by the RR's designated supervisor
- Pre-approval of all written public communications originated by the RR
- Extra training or continuing education in areas subject to heightened supervision
- Assignment of the RR to a "mentor" or partner

4.7.6 Certification By RR's Supervisor

During the term of heightened supervision, the RR's supervisor will certify to Compliance, in writing, that the heightened supervision has been conducted. The form and frequency of certification will be determined by Compliance and will be explained in the Heightened Supervision Memorandum provided to the supervisor.

5 COMMUNICATIONS WITH THE PUBLIC

[FINRA Rule 2200 Series]

Introduction

[FINRA Rule 2200 Series; FINRA Regulatory Notice 12-29]

This chapter explains regulatory and policy requirements when dealing with the public through a wide range of media including electronic media. In general,

- All communications must be truthful and balanced.
- Communications (incoming and outgoing) are subject to review by SAMCO. Do not expect confidentiality for any communications that are received by you or that you send from SAMCO.
- SAMCO's facilities and systems (email, fax, etc.) should be used for business purposes only.
- Records of communications (incoming and outgoing) are retained by SAMCO and are subject to review by regulators and subpoena in civil actions.

5.1 Definitions

[FINRA Rule 2210(a)]

There are three broad categories of communications as defined by rule. **"Written communications" include electronic communications.**

Retail communication: includes **any** written communication (including advertising, telemarketing and other sales scripts and other written communications) that is published, distributed or made available to **more than** 25 retail investors within any 30 calendar-day period. *Requires pre-use approval except that the following do not require pre-use approval and may be supervised like correspondence:*

- *Communications excepted from the definition of "research report" **unless** the communication makes any financial or investment recommendation;*
- *Any retail communication that is posted on an online interactive electronic forum; and*
- *Any retail communication that does not make any financial or investment recommendation or otherwise promote a product or service of SAMCO.*

Institutional communication: includes written communications that are distributed or made available only to institutional investors. *(Does not require pre-use approval, reviewed consistent with correspondence requirements.)*

Correspondence: Includes any written communication that is distributed or made available to 25 or **fewer** retail investors within any 30 calendar-day period. *(Does not require pre-use approval unless indicated otherwise for specific products or services.)*

Additional definitions include:

Retail investor: includes any person other than an institutional investor, regardless of whether the person has an account with SAMCO.

Institutional investor: includes a:

1. government entity or subdivision thereof;
2. employee benefit plan, or multiple employee benefit plans offered to employees of the same employer, that meet the requirements of Section 403(b) or Section 457 of the Internal

- Revenue Code and in the aggregate have at least 100 participants, but does not include any participant of such plans;
3. qualified plan, as defined in Section 3(a)(12)(C) of the Exchange Act, or multiple qualified plans offered to employees of the same employer, that in the aggregate have at least 100 participants, but does not include any participant of such plans;
 4. FINRA member firm or registered person of such a member; and
 5. person acting solely on behalf of any such institutional investor.

Institutional investor also includes [per FINRA Rule 4512(c)] an account for:

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.

5.2 Retail Communications

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance (approval of advertising, file retail communications with FINRA (if required))
Resources	<ul style="list-style-type: none"> • Retail communications submitted for review
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review proposed retail communications • Make revisions as needed • Provide requestor with approved copy or notify of disapproval • File communication with FINRA, if required; notify requestor of any required delay to receive FINRA approval
Record	<ul style="list-style-type: none"> • Dates of first and (if applicable) last use • Copies of reviewed communications, including the reviewer's approval and date of approval • For communications not requiring pre-approval, the name of the person who prepared or distributed the communication • Information regarding the source of any statistical table, chart, graph or other illustration used in the communication • Copies of communications filed with FINRA (see section <i>FINRA Filing Requirements</i>) and FINRA response/approval (as applicable) • If the communication was prepared by another member firm and filed with FINRA, the name of the firm and a copy of FINRA's review letter

Retail communications, which include advertising, require the **prior approval** of the designated supervisor prior to use or distribution. Advertising also requires the **prior approval** of Compliance and may be filed with FINRA depending on the content. The person submitting the retail communication for review (and that person's supervisor, if applicable) will be notified of approval or the need to make changes prior to release.

5.2.1 FINRA Filing Requirements

[FINRA Rule 2210(c)]

Some retail communications must be filed with FINRA. The following chart outlines those requirements and the corresponding rule cite.

- Filings must be accompanied by FINRA's Advertising and Sales Literature Filing Cover Sheet.
- Filings should identify the reference number of any communication previously submitted by [The Firm] and already reviewed by FINRA that is similar to the current filing.
- All retail communications to be submitted to FINRA must be approved by the designated supervisor prior to submission to FINRA.
- The actual or expected date of first use or publication and the name and CRD number of the approving supervisor must be included with the FINRA filing. [FINRA Rule 2210(c)(5)]

It is not necessary to file any retail communication which has previously been filed and is used without any changes. FINRA rules should be consulted for specific requirements and some exclusions [Rule 2210(c)(7)] from the requirements.

Retail Communication Content Requiring Filing	When	FINRA Rule
New member firms only: certain broadly disseminated retail communications such as generally accessible websites, print media communications, and TV and radio commercials. Free writing prospectuses are also included.	One-year requirement to file at least 10 business days prior to use starting on the date the firm's membership with FINRA becomes effective, per the CRD. Free writing prospectuses may be filed within 10 business days of first use.	2210(c)(1)(A)
Investment company using rankings or performance comparison information that is not generally published or is created by the investment company, its underwriter or affiliate (must be filed with corroborating data)	10 business days prior to first use; cannot use until changes required by FINRA have been made	2210(c)(2)(A) 2212 2214
Security futures (with certain exceptions)	10 business days prior to first use; cannot use until changes required by FINRA have been made	2210(c)(2)(B) 2215
Bond mutual funds that include volatility ratings	10 business days prior to first use; cannot use until changes required by FINRA have been made	2210(c)(2)(C) 2213
Options communications used prior to the delivery of the Options Disclosure Document	10 calendar days prior to first use; cannot use until changes required by FINRA have been made	2220(c)
Public direct participation programs	Within 10 business days of first use	2210(c)(3)(B)
Templates for written reports produced by or concerning an investment analysis tool (Retail communications based on templates previously filed with FINRA where the only changes are to update statistical or other non-narrative information do not require re-filing.)	Within 10 business days of first use or publication	2210(c)(3)(D)
Registered CMOs	Within 10 business days of first use or publication	2210(c)(3)(D) 2216

Registered structured products that are derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance or a foreign currency	Within 10 business days of first use or publication	2210(c)(3)(E)
Television or video where [The Firm] has filed with FINRA a draft version of a "story board"	Within 10 business days of first use or broadcast	2210(c)(4)
Certain 529 Plans communications offering registered investment company products	Within 10 business days of first use or publication	2210(c)(2)(A)
Certain broker-prepared widely disseminated free-writing prospectuses	Within 10 business days of first use or publication	Regulatory Notice 10-52

5.3 Institutional Communications

[FINRA Rule 2210(b)(3)]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Letters, electronic communications, marketing materials, other communications for institutions only
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Review communications including correspondence (incoming and outgoing); see related correspondence sections in this chapter Limit institutional communications to institutions only by: <ul style="list-style-type: none"> Advising the receiving institution that the material is for institutions only Adding a legend to material; Asking the receiving institution to affirm materials will be distributed to institutional investors only; or Taking other steps to limit distribution If SAMCO becomes aware that institutional communications are being distributed to retail investors by the institution, cease providing material to the institution or treat it as retail communications
Record	<ul style="list-style-type: none"> Institutional communications reviewed with approval/date of approval Institutional affirmations limiting distribution Action taken if an institution distributes institutional-only communications to retail investors

Institutional communications (including electronic communications) do not require prior approval other than advertisements that require Compliance approval prior to publication. Institutional communications are subject to reviews meeting the standards of correspondence reviews (incoming and outgoing) explained in the related sections on correspondence.

5.4 General Standards

[FINRA Rule 2210(d)(1)]

Communications must meet general standards which are summarized below. The rules should be consulted for details.

- 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 and must not omit any material fact where its omission would make the communication misleading.
- Communications may not contain false or misleading statements or any statement SAMCO knows to be untrue.
- Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.
- Statements must be clear and not misleading within the context in which they are made and must provide balanced treatment of risks and potential benefits. Communications must be consistent with the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield inherent to investments.
- The nature of the audience to which the communication will be directed must be considered providing appropriate details and explanations appropriate to the audience.
- Communications may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast; provided. Exceptions include hypothetical illustrations of mathematical principals, investment analysis tools, or research reports subject to certain conditions.

5.4.1 Comparisons

Any comparison in retail communications between investments or services must disclose all material differences between them, including (as applicable) investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, and tax features.

5.4.2 Disclosure Of The Firm's Name

All retail communications (other than "blind" advertisements used to recruit personnel) and correspondence must:

- prominently disclose the name of the Firm, or the name under which business primarily is conducted (per SAMCO's Form BD), and may also include a fictional name by which SAMCO is commonly recognized or which is required by any state or jurisdiction;
- reflect any relationship between SAMCO and any non-member or individual who is also named; and
- if it includes other names, reflect which products or services are being offered by SAMCO.

5.4.3 Tax Considerations

- References to tax-free income must indicate which income taxes apply, or which do not.
- Communications must not characterize income or investment return as tax-free or exempt when liability is merely postponed.
- A comparative illustration of the mathematical principles or tax-deferred versus taxable compounding must meet seven specified criteria.

5.4.4 Disclosure Of Fees, Expenses And Standardized Performance

Communications that present certain permitted investment company performance data must disclose performance information required by SEC Rule 482 and Investment Company Act Rule 34b-1, among other things. This information must be set forth prominently, and in any print advertisement, in a prominent text box that contains only the required information.

5.4.5 Recommendations

- If a communication includes a recommendation of securities, it must have a reasonable basis and disclose: SAMCO must provide, or offer to furnish upon request, available investment information supporting the recommendation (including, for corporate equity securities, the price at the time the recommendation is made).
- Generally, a communication may not refer to past specific recommendations of SAMCO that were or would have been profitable; however, it may set out or offer to furnish a list of all recommendations as to the same type of securities made by SAMCO within the past year if the communication meets certain conditions, including the condition that the communication contain a specified, prominently displayed cautionary legend.
- These requirements do not apply to any communications that meet the definition of "research report" and include required research disclosures.
- The general disclosure requirements for recommendations do not apply to any communication that recommends only registered investment companies or variable insurance products, if such communications have a reasonable basis for the recommendation.

5.4.6 Prospectuses Filed With The SEC

Prospectuses, preliminary prospectuses, fund profiles and similar documents that have been filed with the SEC are not subject to the content standards except for investment company prospectuses published pursuant to Rule 482 and broadly disseminated free writing prospectuses that are filed with the SEC pursuant to Securities Act Rule 433(d)(1)(ii).

5.4.7 Limitations On Use Of FINRA's Name And Any Other Corporate Name Owned By FINRA

[FINRA Rule 2210(e); FINRA email address for questions: trademarks@finra.org]

SAMCO may indicate its FINRA membership in only three ways:

- In a communication that complies with the standards of FINRA Rule 2210 and neither states nor implies that FINRA or any other corporate name or facility owned by FINRA, or any other regulatory organization, endorses, indemnifies or guarantees SAMCO's business practices, selling methods, the class or type of securities offered, or any specific security; references are limited to "Reviewed by FINRA" or "FINRA reviewed;"
- In a confirmation statement for an OTC transaction that includes a specified legend; or
- On SAMCO's website (or any related firm website about securities business), as long as SAMCO provides a hyperlink to the homepage of FINRA's website in close proximity to SAMCO's indication of FINRA membership.

Member firms are prohibited from including FINRA's logo on web sites, business cards, stationery, or other marketing materials. The FINRA trademark or references to membership may not be included in any trademark of SAMCO or associated person. SAMCO may, however, include "FINRA Member Firm" or "Member of FINRA" on such materials.

5.5 Approval

[FINRA Rule 2210(b)]

Supervisory review and approval is outlined in the following chart.

Type	Approval Required
Retail communications	Must be approved by the designated supervisor before the earlier of its first use or filing with FINRA. Prior approval is not required for the following retail communications:

	<ul style="list-style-type: none"> • Another FINRA member already filed it and received approval and SAMCO does not materially alter it or use it inconsistent with FINRA's approval • Retail communications supervised as correspondence where: it is excepted from the definition of "research report" unless it makes any financial or investment recommendation; it is posted on an online interactive electronic forum; and it does not make any financial or investment recommendation or otherwise promote a product or service of the member.
Institutional communications	<ul style="list-style-type: none"> • Correspondence will be reviewed as described in correspondence sections • Advertising requires prior Compliance approval • Other communications do not require pre-use approval and are subject to correspondence reviews
Correspondence	Reviewed as outlined in the sections Outgoing Correspondence and Incoming Correspondence

5.5.1 Research

[FINRA Rule 2210(b)(1)(B)]

A Supervisory Analyst (approved under NYSE Rule 344) may approve the following:

- Research reports on debt and equity securities
- Communications that are limited to the following:
 - discussions of broad-based indices;
 - commentaries on economic, political or market conditions;
 - technical analyses concerning the demand and supply for a sector, index or industry based on trading volume and price;
 - statistical summaries of multiple companies' financial data, including listings of current ratings;
 - recommendations regarding increasing or decreasing holdings in particular industries or sectors; or
 - notices of ratings or price target changes, provided that the member simultaneously directs the readers of the notice to the most recent research report on the subject company that includes all current applicable disclosures required by this rule and that such research report does not contain materially misleading disclosure, including disclosures that are outdated or no longer applicable;
- Other research that does not meet the definition of "research report" in NASD Rule 2711(a)(9).

5.6 Testimonials

[FINRA Rule 2210(d)(6)(B); FTC Guides Concerning the Use of Endorsements and Testimonials: <http://ftc.gov/os/2009/10/091005revisedendorsementguides.pdf>]

There are specific requirements when using testimonials in communications with the public, including disclosure regarding payment of more than \$100 in value paid for the testimonial. Compliance should be contacted before preparing any communications that include testimonials.

5.7 Telemarketing Scripts

All scripts used for telemarketing calls are considered retail communications and require the approval of the designated supervisor prior to use. The section *Cold Callers* includes further information regarding the use of scripts and callers.

5.8 SIPC Membership

[Securities Investor Protection Act of 1970; United States Code Title 15 Chapter 2B-1; SIPC web site at www.sipc.org/how/sipclogo.aspx]

Advertising must include a notation that SAMCO is a member of SIPC, e.g., "Member, SIPC." If an explanatory statement will be included in advertising explaining what SIPC is, one of the following two standardized phrases must be included:

- Member of SIPC, which protects securities customers of its members up to \$500,000 (including \$250,000 for claims for cash). Explanatory brochure available upon request or at <http://www.sipc.org>.
- Member of SIPC. Securities in your account protected up to \$500,000. For details, please see <http://www.sipc.org>.

The words "Member, SIPC" may be omitted if the official explanatory statement is used in conjunction with the official SIPC symbol.

When SIPC is referenced in SAMCO's web site, the site will include a hyperlink to the SIPC web site.

"Advertising" is defined under SIPC rules as any promotional material used in or on any newspaper, magazine, or other periodical, radio, television, telephone or tape recording, videotape display, motion picture, slide presentation, telephone directory, sign or billboard, electronic or other public media.

5.9 Communications Defined As "Research"

[SEC Regulation AC; NASD Rule 2711(a)(9)(A)]

RRs are **not** permitted to send communications that may be deemed "research" since there are complex requirements that apply to the issuance of research reports. Federal and SRO rule interpretations define "research" as any written communications (including electronic) that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to make an investment decision and that is distributed to at least 15 persons. This applies even if the author does not hold the title of "research analyst" and does not work in a research department.

There are specific exceptions under SRO rules. Questions regarding whether a communication constitutes "research" should be referred to Compliance.

5.10 Recordkeeping Requirements For Retail And Institutional Communications

[FINRA Rule 2210(b)(4)(A); SEC Securities Exchange Act of 1934 Rule 17a-4]

Records of retail and institutional communications must include:

- Originals of all communications received and copies of all communications sent
- While not "retail" or "institutional" communications, records of inter-office memoranda and communications relating to [The Firm]'s business [SEC Rule 17a-4(b)(4)]
- The dates of first use and (if applicable) last use

- The name of the registered principal who approved the communication and the date of approval
- For communications not approved by a supervisor prior to first use, the name of the person who prepared or distributed the communication (where clerical staff prepares or distributes the communication, include the name of the person on whose behalf the communication was prepared or distributed)
- The source of statistical tables, charts, graphs and other illustrations
- For a retail communication prepared by another firm and submitted to FINRA, the name of the firm and a copy of FINRA's review letter
- A record that the item was filed with FINRA and when filed (if required)
- Changes recommended by FINRA and approval received from FINRA (if required)

5.11 Advertising And Sales Literature

[NASD Rule 2210]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests regarding advertising or sales literature
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review proposed advertising or sales literature • Make revisions as needed • Provide requestor with approved copy or notify of disapproval
Record	<ul style="list-style-type: none"> • Copies of reviewed advertising, including the reviewer's initials, are retained in an Advertising file in Compliance

5.11.1 Advertising And Sales Literature Defined

Advertising generally includes material published or designed for use in newspapers, magazines or other periodicals, radio, television, telephone or tape recordings, telephone directory advertising (other than routine listings), computer bulletin boards or other electronic messages, videotape displays, signs or billboards, movies, or other material published in public media.

Sales literature generally includes circulars, research reports, form letters sent to more than one person, newsletters, seminar texts and reprints, or other material originated by SAMCO or its employees and to be reproduced and provided to multiple customers or prospective customers. Sales literature also includes telemarketing scripts. The terms "advertising" and "sales literature" are interchangeable in this chapter.

5.11.2 General Guidelines

All advertising and sales literature must meet the general standards of good taste and accuracy and should fairly represent the products or services included in the advertisement or sales literature. Promissory, exaggerated, or false statements as well as language inferring guarantees are not permitted. Projections and predictions are not permitted. 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.

In addition, if a recommendation is included in advertising or sales literature, the following disclosures must be included (if applicable):

- SAMCO acts as market maker in the recommended security or the underlying security or that associated persons will sell to or buy from customers on a principal basis.
- SAMCO and/or its officers or partners have a financial interest in any of the issuer's securities and the nature of that interest (options, warrants, short/long positions, *etc.*) unless the interest is nominal.
- SAMCO was a manager or co-manager of the issuer's securities within the past 12 months.

5.11.3 Required Information

All advertisements and sales literature will contain the name of the Firm. "Blind" ads are not permitted except for recruiting personnel. Exceptions to use of the Firm's name must comply with rules that deal with generic, derivative, and other potential variations on the Firm's name.

Sales literature is also required to include the name of the person or firm preparing the material, if other than SAMCO, 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 advertising and sales literature regarding SAMCO's services, may not be permitted. Compliance's review of advertising will consider such requests on a case-by-case basis.

5.11.4 Approval Prior To Publication

All advertising or sales literature must be submitted to Compliance for approval prior to publication or use with the exception of certain materials such as research that may be approved by other designated supervisors.

5.11.5 Disclosure Of Prices For Recommended Corporate Securities

In communications where corporate securities are recommended, the price of the security at the time of the recommendation must be disclosed. While this requirement does not extend to other securities, inclusion of the price would be required if price information is deemed "material" and necessary to make the communication not misleading.

5.11.6 Sales Material Provided By Third Parties

[NASD Rule 2210(b)(1)(D) and 2210(b)(2); FINRA Regulatory Notice 08-27 and 08-12]

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Proposed sales material from third parties
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • For all third-party sales material review for: <ul style="list-style-type: none"> ○ Clear indication the material is advertising if SAMCO or the RR paid for it ○ Suggesting or implying the RR authored the material when in fact that is not the case ○ Acceptable RR titles, if titles are included ○ Pre-determined interviews (written or otherwise) are identified as such and include disclosure the Q&A is pre-determined and not a spontaneous interview • For third-party material previously filed with and approved by FINRA: <ul style="list-style-type: none"> ○ Obtain a copy of FINRA approval ○ Allow use if no material changes are made

	<ul style="list-style-type: none"> For third-party material NOT previously filed with FINRA: <ul style="list-style-type: none"> Review the material for consistency with FINRA standards File with FINRA, if required <ul style="list-style-type: none"> Upon receipt of review letter, make necessary changes Indicate approval including date of approval
Record	<ul style="list-style-type: none"> Copy of sales material with notations, as necessary Copy of FINRA review letter, if one has been obtained Record of date first use and (if applicable) date of last use Retain for three years from date of last use

Sales material provided by outside (third) parties such as newspaper or magazine articles, books or pamphlets, handouts, and other third-party provided material **must be reviewed and approved by Compliance prior to use**. When participating in an interview (written or otherwise) where the questions are pre-determined by the third party, disclosure must be made that questions and answers were pre-determined and the interview was not spontaneous. Some sales material requires the prior approval of FINRA.

The following guidelines apply when using third-party sales material:

- RRs may **not** suggest or imply that they authored investment-related books, articles, or other sales material not written by them.
- If SAMCO or RR has paid for the publication, production, or distribution of any communication that appears to be a magazine, article or interview, then the communication must be clearly identified as an advertisement.
- Sales material may **not** include RR titles other than those normally conferred by SAMCO (account executive, financial consultant, *etc.*) unless previously approved by Compliance. RRs particularly may **not** use titles implying expertise in dealing with senior investors.

5.11.7 SIPC Membership

[Securities Investor Protection Act of 1970; United States Code Title 15 Chapter 2B-1; SIPC web site at www.sipc.org/how/sipclogo.cfm]

Advertising must include a notation that SAMCO is a member of SIPC, *e.g.*, "Member, SIPC." If an explanatory statement will be included in advertising explaining what SIPC is, one of the following two standardized phrases must be included:

- Member of SIPC, which protects securities customers of its members up to \$500,000 (including \$250,000 for claims for cash). Explanatory brochure available upon request or at www.sipc.org.
- Member of SIPC. Securities in your account protected up to \$500,000. For details, please see www.sipc.org.

The words "Member, SIPC" may be omitted if the official explanatory statement is used in conjunction with the official SIPC symbol.

When SIPC is referenced in SAMCO's web site, the site will include a hyperlink to the SIPC web site.

"Advertising" is defined under SIPC rules as any promotional material used in or on any newspaper, magazine, or other periodical, radio, television, telephone or tape recording, videotape display, motion picture, slide presentation, telephone directory, sign or billboard, electronic or other public media.

5.11.8 FINRA Membership

[NASD IM 2210-4; FINRA Regulatory Notice 11-49; FINRA Information Notice Use of FINRA Logo, April 29, 2009; FINRA email address for questions: trademarks@finra.org]

SAMCO may indicate its FINRA membership in only one of three ways:

1. In a communication that complies with the standards of NASD Rule 2210 and neither states nor implies that FINRA or any other corporate name or facility owned by FINRA, or any other regulatory organization, endorses, indemnifies or guarantees SAMCO's business practices, selling methods, the class or type of securities offered, or any specific security;
2. In a confirmation statement for an OTC transaction that includes a specified legend; or
3. On SAMCO's website, as long as SAMCO provides a hyperlink to the homepage of FINRA's website in close proximity to SAMCO's indication of FINRA membership.

Member firms are prohibited from including FINRA's logo on web sites, business cards, stationery, or other marketing materials. The FINRA trademark or references to membership may not be included in any trademark of SAMCO or associated person. SAMCO may, however, include "FINRA Member Firm" or "Member of FINRA" on such materials.

5.11.9 Telemarketing Scripts

All scripts used for telemarketing calls require the approval of the designated supervisor prior to use. The section *Cold Callers* includes further information regarding the use of scripts and callers.

5.11.10 Special Filing Or Approval Requirements

[NASD Rule 2210(c); NASD Notice to Members 89-11; FINRA Regulatory Notice 11-49]

There are special filing or approval requirements for certain products and broker-dealers, as outlined below.

- Filings must be accompanied by FINRA's Advertising and Sales Literature Filing Cover Sheet.
- Filings to FINRA should identify the reference number of any communication previously submitted by SAMCO and already reviewed by FINRA that is similar to the current filing.
- All advertising or sales literature to be submitted to FINRA must be approved by the designated supervisor prior to submission to FINRA.
- The actual or expected date of first use or publication must be included with FINRA filing.

FINRA rules should be consulted for specific requirements and some exclusions from the requirements.

Who	What	When	Rule
Members who have never filed	All advertisements ¹	10 business days prior to first use for one year dating from the first submission	2210(c)(5)(A)
All members	Options communications used prior to the delivery of the Options Disclosure	10 calendar days prior to first use; wait for FINRA staff approval	2220(c)(1)

	Document ²		
All members	Sales literature that contains bond mutual fund volatility ratings	10 business days prior to first use; wait for FINRA staff approval	2210(c)(3)
All members	CMO advertisements ³	10 business days prior to first use; cannot use until changes required by the Department have been made	2210(c)(4)(B)
All members	Investment company advertisements or sales literature that use rankings or performance comparison information that is not generally published or is created by the investment company, its underwriter or affiliate, must be filed with corroborating data	10 business days prior to first use; cannot use until changes required by the Department have been made	2210(c)(4)(A)
All members	Investment company advertisements and sales literature	Within 10 business days of first use	2210(c)(2)(A)
All members	Public direct participation program advertisements and sales literature	Within 10 business days of first use	2210(c)(2)(A)
All members	Security Futures advertisements ⁴	10 business days prior to first use; cannot use until changes required by the Department have been made	2210(c)(4)(C)
All members	Final version of TV and Video advertisements	Within 10 business days of first use or broadcast	2210(c)(6)
All members	Certain 529 Plans advertisements and sales literature offering registered investment company products ⁵	Within 10 business days of first use	2210(c)(2)(A)
All members	Government securities advertisements	Within 10 business days of first use	2210(c)(1)
All members	Investment analysis tool, report templates, and sales literature and advertisements ⁶	Within 10 business days of first use	IM-2210-6(a)

¹ "Advertisements" are communications with the public that appear in media (e.g., newspaper, radio, television, websites) whereas "sales literature" is directed to a specific audience or group (e.g., mailers, brochures, password protected websites). For complete definitions see NASD Conduct Rule 2210(a).

² See Conduct Rule 2220 Options Communications with the Public.

³ See IM-2210-8 Communications with the Public About Collateralized Mortgage Obligations.

⁴ See IM-2210-7 Guidelines for Communications with the Public Regarding Security Futures.

⁵ See Special NTM 03-17 for additional guidance.

⁶ See NTM 04-86 for additional guidance.

It is not necessary to file with FINRA any advertising and sales literature which has previously been filed and is used without any changes. 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.

5.11.11 Institutional Sales Material

[FINRA Rule 2211]

Sales material prepared for institutional investors is not subject to the same requirements as material prepared for non-institutional investors. This does **not** include material that SAMCO has reason to believe will be distributed to anyone who is not an institutional investor. For example, if sales material is provided to an institution for distribution to employees participating in a 401K plan, the sales material would be treated as distributed to retail investors. "Institutional investor" includes a(n):

- bank, savings and loan association, insurance company, or registered investment company
- registered investment adviser
- entity (natural person, corporation partnership, trust, or other) with total assets of at least \$50 million
- government entity
- employee benefit plan under Internal Revenue Code Section 403(b) or 457 with at least 100 participants
- qualified plan under Section 3(a)(12)(C) of the '34 act with at least 100 participants
- FINRA member or someone registered with a FINRA member firm
- someone acting solely on behalf of an institutional investor

Institutional sales material is subject to SAMCO's correspondence review procedures and does not require pre-use approval and filing with FINRA.

5.11.12 Records Of Advertising And Sales Literature

Compliance maintains a central file of all advertising and sales literature approved by SAMCO. The file includes, for each item reviewed:

- the approval by the designated supervisor
- a record that the item was filed with an SRO and when (if required)
- approval received from the SRO (if required)
- in what media the item appeared (if applicable)
- date of first use and (if applicable) date of last use

5.11.13 Options

Refer to the chapter *OPTIONS* regarding requirements for options advertising.

5.11.14 Mutual Funds

Refer to the chapter *MUTUAL FUNDS* regarding requirements for mutual funds advertising.

5.11.15 Municipal Securities

Refer to the chapter *MUNICIPAL SECURITIES* regarding requirements for municipal securities advertising.

5.11.16 Collateralized Mortgage Obligations (CMOs)

Refer to the chapter *COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)* regarding requirements for CMO advertising.

5.11.17 Advertisements Involving Non-Branch Locations

FINRA rules specify that any non-branch location referenced in an advertisement or sales literature by its local telephone number and/or local post office box is permitted if the advertisement 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.

SAMCO'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 *OFFICES* for further information.

5.11.18 Testimonials

[NASD Rule 2210(d)(1)(E) and 2210(d)(2); FTC Guides Concerning the Use of Endorsements and Testimonials: <http://ftc.gov/os/2009/10/091005revisedendorsementguides.pdf>]

There are specific requirements when using testimonials in communications with the public. Compliance should be contacted before preparing any communications that include testimonials.

5.12 Outgoing Correspondence

[NASD Rule 3010(d); FINRA Rule 2010(c)]

5.12.1 Prohibition Against Sending Correspondence From Personal Computers And Other Non-Firm Facilities

Outgoing public correspondence must be sent or transmitted only through Firm-sponsored facilities or systems. Written correspondence must be sent through channels that permit review by the supervisor. Correspondence may not be sent through an RR's personal computer, PDA (unless issued by SAMCO), or other device, third-party system or facility that circumvents SAMCO review.

5.12.2 Review And Approval

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Outgoing customer correspondence
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review correspondence for appropriateness of language• Identify outgoing correspondence that may constitute "research" and limit distribution to fewer than 15 persons; confer with Compliance when necessary• Identify correspondence that required prior approval for compliance with pre-approval requirements• Take corrective action, if necessary, which may include consultation with the RR and/or Compliance, sending corrected correspondence, added training for the RR, restrictions on correspondence, or other action considered appropriate for the circumstance
Record	<ul style="list-style-type: none">• Correspondence including reviewer's initials and action taken, if appropriate

Outgoing customer correspondence is subject to review and approval by the designated branch/department supervisor. Pre-approved form letters and group e-mails **used without change** (other than customer name, address) may be sent to customers or prospective customers without additional approval. Records of to whom form letters and group e-mails are sent must be retained in SAMCO's records.

5.12.2.1 Reviewing On A Sampling Basis

[NASD Rule 3010(d)(2); FINRA Notice to Members 98-11]

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Evaluation of the firm's size, types of business, supervisory structure
Frequency	<ul style="list-style-type: none"> • At inception of sampling procedures and ongoing
Action	<ul style="list-style-type: none"> • Determine types of sampling permissible • Develop procedures and update as necessary • Provide procedures and education/training to correspondence reviewers • Include correspondence requirements in RR training • Include sampling procedures in periodic reviews of branches, offices, and supervisory system, controls and procedures • Identify RRs with complaint/disciplinary history necessitating review of ALL correspondence and notify the RR's supervisor ("heightened supervision")
Record	<ul style="list-style-type: none"> • Procedures for sampling reviews are included in the WSP manual • Updates to procedures are retained by Compliance • Education and training are documented including how conducted, who attended, and dates of education/training including educational memoranda • Records of "heightened supervision" retained in RR's file

Supervisors may review written outgoing correspondence on a sampling basis using the guidelines that follow, or, if sampling is not adopted, review all outgoing correspondence prior to sending.

Sampling guidelines include the following. "Pre-review" refers to review and approval of written correspondence **before** it is sent. Correspondence subject to "post-review" may be reviewed after sending. All RRs are subject to review of at least some of their correspondence on a regular basis. Sampling is permitted for the following type(s) of outgoing correspondence:

- Written (hard-copy) correspondence
- E-mails
- Instant messaging
- Faxes

5.12.2.2 Post-review

- Refer to the section *Content Guidelines* that follows for guidance on acceptable content
- For correspondence that includes a recommendation, determine that the information presented balances the benefits and risks of the recommendation and, if the subject security

is high-risk, determine the recommendation is appropriate for the customer by conferring with the RR and/or reviewing new account information

- If there are problems with an RR's correspondence that is being minimally sampled, increase the reviews and note the change in the RR's file, on a Daytimer, or on a supervisory log.

5.12.3 Content Guidelines

Items to consider when preparing and reviewing outgoing correspondence (and other forms of written or electronic communications) include:

- Truthfulness and good taste are required.
- Exaggerated, unwarranted, or misleading statements or claims are prohibited.
- Promises or guarantees: past performance may not be used to promise, guarantee, or imply future profits or income from securities.
- Projections and predictions are not permitted.
- Comparisons of personnel, facilities, or charges with those of other broker-dealers should not be made unless supported by the facts, and other firms' names should not be included.
- Correspondence or other written communications regarding securities subject to pending distributions (underwritings) are generally not permitted.
- Correspondence regarding securities sold by prospectus (mutual funds, limited partnerships, *etc.*) must be approved by Compliance prior to sending (except for pre-approved correspondence where no changes are made).
- Only SAMCO-approved hedge clauses may be used.
- Tax advice must not be provided; the customer should be referred to his or her tax adviser for such issues.
- Photocopying and distributing copyrighted material may violate copyright laws.
- Profit and loss or other portfolio analyses should include a disclaimer that the customer should rely on customer statements provided by SAMCO and any analysis or calculation is provided for information purposes only.
- The use of SAMCO letterhead should be restricted to SAMCO-related matters.
- Correspondence regarding options is subject to specific requirements which are discussed in the chapter *OPTIONS*.

5.12.4 Letters And Notes

Copies of letters, notes, and similar correspondence must be provided to the designated supervisor on the day sent.

5.12.5 Facsimiles

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Outgoing faxes
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Review outgoing faxes as follows: <ul style="list-style-type: none"> ○ [methods to review outgoing correspondence] • For faxes with questionable content: <ul style="list-style-type: none"> ○ Confer with RR ○ Confer with Compliance, if necessary ○ Take corrective action which may include: <ul style="list-style-type: none"> ▪ Sending a revised fax to the recipient ▪ Training for RR ▪ Disciplinary action against RR which may include a reprimand, suspension, or termination

Record	<ul style="list-style-type: none"> • Outgoing faxes with reviewer's initials • Records of corrective action taken

Facsimiles are included in the definition of "outgoing correspondence" and are subject to review by the designated supervisor.

Facsimile transmissions may NOT be used for unsolicited advertising. Refer to the section *Calling (Telemarketing) And Fax Restrictions* in this chapter.

5.13 Incoming Correspondence

[NASD Rule 3010(d)]

5.13.1 Review Of Incoming Correspondence

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Incoming correspondence, including correspondence marked "personal and confidential"
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Review all incoming correspondence • Refer customer securities and checks directly to Operations • Refer customer complaints to Compliance • Refer audit letters to Operations
Record	<ul style="list-style-type: none"> • Initial each piece of correspondence and maintain in branch/department incoming customer correspondence files.

All incoming written correspondence will be opened and reviewed by a designated Reviewer appointed by the branch/department supervisor. This review includes letters, facsimiles, courier deliveries, and other forms of written communication. Electronic mail is subject to specific procedures for review; see the section *Electronic Mail* in this chapter and the section *Electronic Communications Policy* in the chapter *GENERAL EMPLOYEE POLICIES*.

The following guidelines for review apply:

- Correspondence identified as "Confidential" will be opened and reviewed.
- Obvious non-customer correspondence (bank statements, advertising, *etc.*) will not be opened and will be forwarded directly to the addressee.
- Audit letters (requests from customers' auditors for verification of account positions) will be forwarded directly to Operations for response.
- Complaints will be immediately forwarded to the RR's supervisor and to Compliance.
- Checks or securities will be immediately deposited with the appropriate operations personnel and the RR notified of receipt.
- Original customer correspondence will be retained for SAMCO's files; the addressee will receive a copy.
- Original customer correspondence will be forwarded to the designated supervisor for review, initialing, and filing.

5.13.2 Personal Mail

Employees should direct all personal mail to their home address. Personal mail is subject to incoming correspondence and electronic mail review policies.

5.14 Legends And Footnotes

[FINRA Rule 2210(d)(1)(C)]

When legends or footnotes are included in public communications, they cannot be placed or sized in a way that limits the investor's ability to read or understand the information. Small fonts may inhibit reading the information or may inappropriately diminish the importance of the information. Bold claims balanced by a footnote may also mislead the reader.

5.15 Internal Communications

5.15.1 Inter-Office Communications

[SEC Securities Exchange Act of 1934 Rule 17a-4(b)(4)]

Inter-office memos and other communications are subject to retention requirements. Copies of written inter-office communications must be retained for 3 years with the 2 most recent years in an accessible location. Electronic communications are retained for 3 years in an accessible and retrievable format.

5.15.2 Internal Use Only

Printed or electronic information marked "internal use only" may not be sent or otherwise provided to individuals outside SAMCO.

5.15.3 Squawk Box, Conference Calls, And Other Internal Communication Systems

Non-employees may not listen to squawk box or conference calls unless specifically allowed by the person controlling the communication or by Compliance. Proprietary, confidential information communicated to employees in such venues may not be shared with outsiders. For example, sharing information (either by allowing an outsider to listen to or participate in or by giving the information to an outsider) about proprietary trading, block orders, or other information intended for internal use only could give an outsider an unfair advantage to act on the information and is prohibited.

Supervisors should question the participation of outsiders and exclude them unless participation is specifically permitted.

5.16 Investment Analysis Tools

[FINRA Rule 2214]

Responsibility	<ul style="list-style-type: none">• Compliance
Resources	<ul style="list-style-type: none">• Description of proposed investment analysis tools
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Evaluate efficacy of tool, its source, and its proposed use• Approve tool or return to submitter for changes or disapprove• If required, make filing with FINRA

Record	<ul style="list-style-type: none"> • Review of tool including approval or disapproval • Vendors approved • FINRA filings, if any are required
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SAMCO may use investment analysis tools for use by customers either independently or with assistance from an RR. An "investment analysis tool" is an interactive technological tool that produces simulations and statistical analyses that present the likelihood of various investment outcomes if certain investments are made or certain investment strategies or styles are undertaken, serving as a resource to investors in evaluating the potential risks and return of investment choices.

Recommendations based on use of the tool are subject to suitability rule requirements and other rules about fair dealing with customers. **Proposals for investment analysis tools (including methodology, proposed use, types of investors who will use the tool) must be submitted to Compliance for review and approval prior to use unless provided by an already-approved vendor that created the tool. Vendors must be cleared with Compliance prior to using tools provided by them.**

5.16.1 Disclosures

Disclosures are required when using investment analysis tools. Investment analysis tools (including mention in written reports indicating the results generated by such tool and related retail communications) may be used if the tool, written report, or related retail communication:

- describes the criteria and methodology used (including the tool's limitations and key assumptions);
- explains that results may vary with each use and over time;
- if applicable, describes the universe of investments considered, explains how the tool determines which securities to select, and states that other investments not considered may have characteristics similar or superior to those analyzed (*must indicate whether the tool favors certain securities within the universe of securities considered based on Firm revenue from sales of the securities or understandings between SAMCO and the entity that created the tool and whether the tool is limited to searching, analyzing or in any other way favoring securities in which SAMCO makes a market, serves as underwriter, or has any other direct or indirect interest*); and
- displays the following additional disclosure: "IMPORTANT: The projections or other information generated by (*name of investment analysis tool*) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results."

Disclosures must be clear and prominent and in written (including electronic) narrative form. Refer to FINRA Rule 2214.06 for exceptions to requirements for incidental references to tools in retail communications. Users may not imply that FINRA endorses or approves the use of any tool or any recommendation based on the tool.

5.16.2 Filing Requirements

Within 10 business days of first use, SAMCO must:

- provide FINRA's Advertising Regulation Department access to the investment analysis tool; and
- file with FINRA any template for written reports produced by, or retail communications concerning, the tool.

A tool offered exclusively to institutional investors [FINRA Rule 2210(a)(4)] is not subject to the post-use access and filing requirement if the communication relating to or produced by the tool meet the criteria for an "institutional communication" [FINRA Rule 2210(a)(3)]. If the tool or any related report will be used with a retail investor [FINRA Rule 2210(a)(6)] (such as an employee benefit plan participant or retail customer), the tool is subject to the filing and access requirements.

5.17 Complaints

[FINRA Rule 4513 and 4530]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Customers' written or oral complaints FINRA reports (Report Center, Risk Monitoring Reports): <ul style="list-style-type: none"> FINRA Sales Practice Complaint Report FINRA Customer Complaint Report
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Branch/Department Supervisor: <ul style="list-style-type: none"> Resolve complaints of an operational nature such as late dividends, delayed delivery of stock, <i>etc.</i> If written, forward a copy to Compliance with description of resolution Refer all other complaints (mishandling of account by RR, improper transactions, churning, <i>etc.</i>) to Compliance Compliance: <ul style="list-style-type: none"> Send initial acknowledgment of receipt of complaint Gather needed information and investigate the complaint Provide a response and resolution to the customer with a copy to the RR and RR's supervisor If necessary, amend the RR's U4 (or, in the case of a terminated RR, amend Form U5) File quarterly electronic complaint report with FINRA For formal civil actions (lawsuits, arbitrations), refer the matter to SAMCO's counsel for response Review FINRA reports for trends in complaints
Record	<ul style="list-style-type: none"> Copies of complaint and related correspondence (including acknowledgment of receipt of complaint and resolution) are retained in: <ul style="list-style-type: none"> Branch file for complaints (unless SAMCO makes complaints promptly available to FINRA upon request at the office location) Compliance central file of SAMCO's complaints (retention for 4 years) <i>Note:</i> options complaints are retained in separate files both by branches (where records are maintained at branches) and by Compliance Record of electronic filings Records of updates to Form U4 or U5 Reviewed FINRA reports

5.17.1 Complaint Defined

"Complaint" is defined as any grievance by a customer or any person authorized to act on behalf of the customer involving the activities of SAMCO or someone associated with SAMCO in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer.

5.17.2 Handling Of Customer Complaints

When a written complaint is received, a copy should be forwarded immediately to Compliance for follow-up.

Oral complaints may be resolved by the designated supervisor if the nature of the complaint is operational such as late check, late dividend, or another type of nominal problem. Oral complaints alleging mishandling of the customer's account (unauthorized trading, improper investments, *etc.*) should be brought to the attention of Compliance for review and resolution.

5.17.3 Oral Complaints

Oral complaints should be reported immediately to the designated supervisor 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 SAMCO. 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 should be reported either to the designated supervisor or Operations.

5.17.4 Complaints Received By Clearing Firm

As required under SRO rules, whenever SAMCO's clearing firm receives a customer complaint, the clearing firm will:

- Provide a copy of the complaint to SAMCO's compliance officer.
- Provide a copy to SAMCO's designated examining authority (DEA).
- Notify the customer directly that their complaint has been forwarded to SAMCO for response and to the DEA.

When received by SAMCO, the complaint will be handled in the same manner as other complaints received directly by SAMCO.

5.17.5 Records Of Complaints

Compliance will maintain a central record of all customer complaints including the following:

- Complainant's name and address
- Account number
- Date the complaint was received
- Name(s) of employee(s) identified in the complaint
- Description of the nature of the complaint
- Disposition of the complaint

5.17.5.1 Office Records Of Complaints

Each office of supervisory jurisdiction (OSJ) will maintain a separate file of all written customer complaints that relate to that office (including complaints that relate to activities supervised from that office) and action taken by SAMCO, if any, or a separate record of complaints and a clear reference to the office files that contain correspondence regarding complaints. Alternatively, SAMCO may make complaints promptly available at that office, upon request of FINRA.

5.17.6 Notice To Customers

Each customer is provided with notification of the address and telephone number of the department to which complaints may be directed. The FINOP is responsible for establishing procedures to provide this information to customers.

5.17.7 Reporting Of Customer Complaints

[FINRA Rule 4530]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Complaints received from customers or referred by RRs, supervisors, or others• FINRA Disclosure Timeliness Report Card
Frequency	<ul style="list-style-type: none">• Statistical Complaint Report: Quarterly• Form BD, U4s, and U5s (if applicable): Promptly after receipt of complaint
Action	<ul style="list-style-type: none">• Identify reportable complaints and other reportable events• Report to FINRA the events specified in FINRA Rule 4530 within 30 calendar days of knowledge of the event• File electronically the quarterly statistical report by the 15th of the month following the calendar quarter
Record	<ul style="list-style-type: none">• Quarterly complaint reports are maintained in a file for the reports• Copies of events reported

SAMCO will file a quarterly statistical report of complaints with FINRA. Complaints reportable in SAMCO's Form BD and/or an RR's Form U4 (or an amendment to Form U5, if the RR is terminated) will be promptly forwarded to FINRA.

5.18 Customer Privacy Policies And Procedures

[SEC Regulation S-AM and S-P; Securities Industry and Financial Markets Association web page on privacy issues: http://www.sia.com/financial_services/html/breachposition.html; Evolution of a Prototype Financial Privacy Notice: <http://www.ftc.gov/privacy/privacyinitiatives/ftcfinalreport060228.pdf>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• SAMCO's Privacy Policy• Customer opt-out requests
Frequency	<ul style="list-style-type: none">• When accounts are opened - provide copy of Privacy Policy and opt-out form• Annually - send notice of Privacy Policy to all customers• As determined by the designated supervisor: training for employees• As necessary - establish procedures for protecting customer information and ensuring information is only shared when it is allowed• As necessary - when new technologies are adopted
Action	<ul style="list-style-type: none">• Send annual notice to customers

	<ul style="list-style-type: none"> • Code accounts for customers opting out • If "eligibility information" will be received from affiliates, determine that Regulation S-AM requirements are satisfied • Test internal computer systems periodically • Ensure agreements with third parties receiving customer information reflect the third party firm's privacy policies and include a confidentiality agreement • Include maintaining confidentiality of customer information in employee training • When new technologies involving customer information are adopted: <ul style="list-style-type: none"> ○ Contact SAMCO's information officer to: <ul style="list-style-type: none"> ▪ Determine whether appropriate technological precautions have been taken to protect customer information ▪ Determine whether existing testing/audits will include the new technology and, if not, adjust testing program ○ Review existing policies and procedures to determine if changes/additions are required ○ Determine whether added training of employees is necessary and implement, if required
Record	<ul style="list-style-type: none"> • Current Privacy Policy • Customer opt-out requests • Record of annually providing notice to all customers • Determination that Regulation S-AM requirements are satisfied, if information from affiliates will be used for marketing purposes • Copies of signed agreements with third parties receiving customer information • Records of periodic privacy audits or other reviews conducted of SAMCO's computer system that retains customer information • Records of reviews of outsourced services involving the privacy of customer information (see the section <i>Outsourcing</i> in the chapter <i>FINANCIAL AND OPERATIONS PROCEDURES</i>) • Records of review of new technology involving customer information

5.18.1 Introduction

SAMCO has adopted a Privacy Policy which is provided to customers at the time a new account is opened. Notice is also sent to all customers on an annual basis. The Privacy Policy explains the Firm's policies regarding safeguarding of customer information and records and whether SAMCO shares information with outside parties. SAMCO also publishes its Privacy Policy on its web site.

SEC Regulation S-P ("Privacy Of Consumer Financial Information") applies only to accounts for individuals (*i.e.*, institutional accounts are not affected) and differentiates between "customers," where SAMCO has an established relationship with the individual, and "consumers," where there is no pre-established relationship. For purposes of this section, any individual from whom information is obtained (and their legal representative acting on their behalf) to open an account or to obtain services or products from SAMCO is considered a "customer." The term "consumer" will be considered synonymous with "customer" for purposes of this section.

The Privacy Policy applies to all individual customers of SAMCO, whether U.S. residents or foreign residents.

5.18.2 "Public" vs. "Nonpublic" Personal Information About Customers

Generally, information provided to SAMCO by a customer or potential customer in the normal course of SAMCO offering a product or service is considered "nonpublic personal information." Identifying whether information is "public" or "nonpublic" is important as to SAMCO's obligations if SAMCO shares information with nonaffiliated third parties. Public information is information that SAMCO reasonably believes may be obtained from three sources:

- federal state or local government records;
- widely distributed media; or,
- disclosures to the general public that are required to be made by federal, state, or local law.

Nonpublic personal information also includes any list, description, or other grouping of customers (and publicly available information about them) that is derived from financial information that is not publicly available.

5.18.3 Sharing Nonpublic Financial Information

In the normal course of business, SAMCO may share customer nonpublic financial information with service providers such as clearing firms or service bureaus. Agreements with such third parties include assurances regarding the protection of customer records and information. Information sharing with affiliated companies may also occur, and if applicable, is disclosed in SAMCO's Privacy Policy.

SAMCO also shares customer nonpublic financial information with other nonaffiliated third parties such as marketers, which is also disclosed in SAMCO's Privacy Policy. Customers are given the opportunity to opt out of information sharing arrangements with other outside parties, as described in the next section.

5.18.4 Sharing Nonpublic Financial Information

In the normal course of business, SAMCO may share customer nonpublic financial information with service providers such as clearing firms or service bureaus. Agreements with such third parties include assurances regarding the protection of customer records and information. Information sharing with affiliated companies may also occur, and if applicable, is disclosed in SAMCO's Privacy Policy.

SAMCO does not share customer nonpublic financial information with non-affiliated companies or non-exempt service providers.

5.18.5 Annual Notification

On an annual basis, SAMCO will provide all customers with notice regarding SAMCO's Privacy Policy.

5.18.6 Affiliate Marketing

[SEC Regulation S-AM; SEC Small Entity Compliance Guide regarding Regulation S-AM: <http://www.sec.gov/divisions/marketreg/tmcompliance/34-60423-secg.htm>; Fair Credit Reporting Act Section 624]

Regulation S-AM limits use of certain information received from SAMCO's affiliates to solicit a consumer for marketing purposes. Consumers may block the use of certain financial information by affiliates of the person the consumer does business with. SAMCO may use "eligibility information" (*i.e.*, certain financial information such as information regarding the consumer's transactions or experience with the affiliate) if:

- the potential market use of the information has been clearly, conspicuously, and concisely disclosed to the consumer;
- the consumer has been provided with reasonable opportunity to opt out; and
- the consumer has not opted out.

SAMCO will only use information from affiliates if the above requirements are satisfied. Opt-out notices under Regulation S-AM may be included with Regulation S-P opt-out notices described above.

5.19 Scripts

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Scripts to be used by RRs or non-registered cold callers
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Review and revise (as needed)• Scripts for use by non-registered personnel are strictly limited; refer to the section <i>Cold Callers</i> for more details• Ensure required elements (as described in the policy) are included in all scripts
Record	<ul style="list-style-type: none">• Maintain copies of approved scripts in a file - Include initials and date approved

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 Compliance prior to use.
- Scripts for non-option products require the approval of the designated supervisor prior to use.
- Cold callers are restricted to using scripts when making calls (see the section *Cold Callers*). Depending on the content of the script and states where used, the cold caller may require registration and be subject to more stringent state requirements.
- Scripts must clearly include the following, at the beginning or in the introductory portion of the script:
 - the caller's identity
 - the Firm's name
 - the address or phone number of the branch office or OSJ 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.

5.20 Prohibition Against Payments Involving Publications To Influence Market Prices

[FINRA Rule 5230]

Payments of anything of value, directly or indirectly, are prohibited for the purpose of influencing or rewarding someone in connection with the publication or circulation of information in any electronic or other public media for the purpose of influencing the market price of the subject security. This includes any investment service or similar publication; web sites; newspapers, magazines, or other periodicals; radio; or television program. The prohibition does not apply to clearly-identified paid advertising; a communication that discloses the amount and receipt of compensation; or a research report as defined under FINRA rules.

5.21 Pre-recorded Voice Messages And Automatic Telephone Dialing Systems (Autodialers)

[Telephone Consumer Protection Act of 1991; FCC Report and Order dtd 2/15/12:
http://transition.fcc.gov/Daily_Releases/Daily_Business/2012/db0215/FCC-12-21A1.pdf; FINRA Rule 3230(k)]

SAMCO and its associated persons are prohibited from initiating any outbound telemarketing call that delivers a prerecorded message without a person's express written agreement to receive such calls. The rule also requires that all prerecorded telemarketing calls provide specified opt-out mechanisms so that a person can opt out of future calls. The prohibition does not apply to a prerecorded message permitted for compliance with the "safe harbor" for abandoned calls discussed in the next section.

SAMCO does not permit prerecorded messages or the use of autodialing systems.

5.22 Calling (Telemarketing) And Fax Restrictions

[FINRA Rule 3230; NASDAQ Rule 2212; NYSE Rule 3230; Telephone Consumer Protection Act of 1991; Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994; Junk Fax Prevention Act of 2005; FCC Telemarketing Policy web site:
<http://www.fcc.gov/cgb/policy/telemarketing.html>]

Responsibility	<ul style="list-style-type: none">• Compliance
Resources	<ul style="list-style-type: none">• Requests to conduct telemarketing• Third parties contracted for telemarketing• Do not call requests• Federal/state do not call lists
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• For third party telemarketers, confirm compliance with registration requirements and confirm their ability to comply with requirements• Establish and maintain internal do-not-call list• Obtain federal/state do not call lists and make them available to RRs or establish an internal system for automatically checking outgoing calls against lists• For abandoned calls, establish and maintain a method of ensuring compliance with requirements• Train RRs regarding telemarketing prohibitions, use of billing information (if applicable), do-not-call lists, etc.
Record	<ul style="list-style-type: none">• Third party telemarketer compliance reviews• Internal do-not-call list• Records of technology (if employed) to block calls to restricted numbers• Recorded phone calls where billing information is submitted• Records of compliance with abandoned call requirements• Records of training including training materials, who attended when conducted

This section describes restrictions on telemarketing calls under Federal and FINRA rules and regulations. There may be additional regulations such as state laws and rules. Compliance will communicate any such requirements to RRs.

5.22.1 Introduction

SAMCO and its employees are subject to restrictions that govern telephone solicitations as well as unsolicited facsimile advertisements to residences.

Key points include the following:

- Telephone and facsimile solicitations are allowed when the target individual has an "established business relationship" with SAMCO.
- Calls may not be made to individuals included on a Do Not Call List which includes lists maintained by the federal government, state governments, and SAMCO.
- "Telephone solicitation" is defined as a telephone call initiated for the purposes of encouraging the purchase of or investment in property, goods, or services. The definition exempts calls made by tax-exempt nonprofit organizations.
- "Established business relationship" includes someone who has had a transaction or security position, money balance, or account activity within 18 months preceding the call or fax or has contacted SAMCO to inquire about a product or service within 3 months preceding the call or fax.

5.22.2 Telephone Calls

General requirements include the following:

- 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.
- Prerecorded calls to residences are prohibited unless the person has consented in writing to receive such calls and can opt out of future calls and SAMCO complies with the requirements of FINRA Rule 3230(k).
- 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.
- Caller identification information must be transmitted; blocking caller identification information is prohibited.
- Outbound telemarketing calls may not be "abandoned" which means a person answers the call and the call is not connected to someone at SAMCO within two seconds of the completed greeting. SAMCO employs technology to avoid abandoned calls as included in FINRA Rule 3230(j).

The restrictions do not apply to calls to customers for whom SAMCO carries accounts and where the account has had some activity in the last 18 months (trading, credit of interest earned, *etc.*). Calls to other broker-dealers also are not covered by these restrictions.

5.22.3 Wireless Communications

The rule also applies to outbound telephone calls to wireless telephone numbers.

5.22.4 Outsourcing Telemarketing

Compliance must review the use of third party telemarketers before they are engaged. SAMCO is responsible for compliance with telemarketing requirements even if the function is outsourced to a third party. Outsource firms may require registration or licensing to conduct telemarketing for SAMCO.

5.22.5 Unencrypted Consumer Account Numbers

SAMCO and its associated persons are prohibited from disclosing or receiving, for consideration, unencrypted consumer account numbers for use in telemarketing. "Unencrypted" is defined as not only complete, visible account numbers, whether provided in lists or singly, but also encrypted information with a key to its decryption.

5.22.6 Submission Of Billing Information

For any telemarketing transaction, SAMCO or its associated person must obtain the express informed consent of the person to be charged and to be charged using the identified account. If the telemarketing transaction involves pre-acquired account information and a free-to-pay conversion feature, SAMCO or its associated person must: (1) obtain from the customer, at a minimum, the last four digits of the account number to be charged; (2) obtain from the customer an express agreement to be charged and to be charged using the identified account number; and (3) make and maintain an audio recording of the entire telemarketing transaction. For any other telemarketing transaction involving pre-acquired account information, SAMCO or its associated person must: (1) identify the account to be charged with sufficient specificity for the customer to understand what account will be charged; and (2) obtain from the customer an express agreement to be charged and to be charged using the identified account number.

5.22.7 Abandoned Calls

SAMCO and its associated persons are prohibited from abandoning any outbound telemarketing call. The abandoned calls prohibition is subject to a "safe harbor" which provides that a firm or its associated person will not be liable for violating the FINRA rule.

5.22.8 Credit Card Laundering

There is a prohibition against credit card laundering, the practice of depositing into the credit card system a sales draft that is not the result of a credit card transaction between the cardholder and SAMCO. Except as expressly permitted by the applicable credit card system, the rule prohibits a firm or its associated person from:

1. presenting to or depositing into the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and SAMCO;
2. employing, soliciting, or otherwise causing a merchant, or an employee, representative or agent of the merchant, to present to or to deposit into the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the merchant; or
3. obtaining access to the credit card system through the use of a business relationship or an affiliation with a merchant, when the access is not authorized by the merchant agreement or the applicable credit card system.

5.22.9 Other Prohibited Activities

The following are prohibited when calling customers or prospective customers:

- threats, intimidation, and the use of profane or obscene language
- calling a person repeatedly with intent to annoy, abuse, or harass the called party
- using an alias

5.22.10 Do Not Call Lists

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• National Do-Not-Call Registry• State do not call lists• Internal do not call list

	<ul style="list-style-type: none"> • Other vendor lists
Frequency	<ul style="list-style-type: none"> • Ongoing
Action	<ul style="list-style-type: none"> • Add names to SAMCO's do-not-call list within 30 days of receiving the request • Provide access to do not call lists • Obtain updated national do-not-call registry every 30 days • Include telephone solicitation restrictions in RR education programs
Record	<ul style="list-style-type: none"> • The internal do not call list is maintained by Compliance • Federal and state lists are maintained by the vendor (if a vendor is used) or by Compliance

Phone solicitations may not be made to phone numbers that are included in federal, state, or SAMCO's do not call list. **Because fines may be substantial for each call that violates a restriction, it is important to comply with these requirements.**

It is permissible to contact someone with whom SAMCO has an "established business relationship" (described below); the person called has given express written permission to call outside the applicable time; or the person called is a broker or dealer.

If someone has asked to be included on SAMCO's do not call list, that person may not be called regardless of whether they are a current customer or have an established business relationship. Individual states may impose stricter requirements limiting contact with persons on that state's do not call list.

5.22.11 National Do-Not-Call Registry

The Federal Trade Commission (FTC) and Federal Communications Commission (FCC) established requirements for sellers and telemarketers to participate in a National Do-Not-Call Registry of phone numbers that do not accept phone solicitations. SAMCO and its employees must avoid solicitation calls to any number on the list unless the person has an "established business relationship" with SAMCO. The list used must be no older than 31 days prior to the date any call is made.

In general, national do-not-call requirements apply to residential phone numbers. In addition, the FCC includes wireless subscribers in the national registry, presuming these are residential subscribers.

5.22.12 State Restrictions

Certain states have enacted restrictions on telephone solicitations to residences. Florida, for example, has a restrictive policy whereby individuals may ask to be included on a state-wide "do not call" list. It is the telephone solicitor's obligation to be aware of any individuals who are included on that list. Contact Compliance if you have questions regarding state restrictions.

5.22.13 Internal Do Not Call List

Employees are responsible for reporting to Compliance the names of individuals who do not wish to be called. Compliance maintains a Do Not Call List that is periodically distributed to employees with an explanation of SAMCO's telemarketing policy. It is the RR's responsibility to ensure outgoing calls are not made to anyone appearing on SAMCO's Do Not Call List.

5.22.14 Facsimile Transmissions

General requirements that apply to faxes include:

- 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.
- Unsolicited faxes may only be sent to individuals who have an established business relationship with SAMCO.

5.22.15 Established Business Relationship

Calls and faxes to the following are not subject to do-not-call restrictions:

- a person having made a financial transaction or having a security position, a money balance, or account activity with SAMCO (or its clearing firm if a clearing firm relationship exists) within 18 months immediately preceding a call or fax; or
- SAMCO is the "broker-dealer of record" (identified on the customer's account application for accounts held directly at a mutual fund or variable insurance product issuer) for the account of the person within the previous 18 months immediately preceding the date of the call or fax; or
- the person has contacted SAMCO to inquire about a product or service offered by SAMCO within the previous 3 months immediately preceding the call or fax.

5.23 Public Appearances

[FINRA Rule 2210(f)]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests for public appearances • Outlines of subjects to be included • Charts or other visual aids to be used in conjunction with public speaking • Written materials to be provided to attendees
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Refer requests for contact with media to Compliance • Review outlines of information to be presented and revise, as needed • For product-specific presentations, request review by product manager, if necessary • For mutual fund presentations, materials provided by wholesalers also require the approval of Compliance • Option presentations require the review and approval of the ROP and Compliance • Review charts and written materials to be presented • Attend sales seminars periodically to confirm compliance with requirements • Ensure presentations involving securities being offered by prospectus include provision of prospectuses to attendees
Record	<ul style="list-style-type: none"> • Maintain approved outline, samples of visual aids, and written materials in a "Public Appearances" file • Initial and date all approved materials • Obtain and maintain in the Public Appearances file a list of attendees who received prospectuses (if applicable) • The ROP and Compliance maintain a file of all approved public

	appearances that includes options <ul style="list-style-type: none"> • Compliance maintains records of approved wholesaler materials
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The following sections outline requirements when RRs engage in public appearances.

5.23.1 General Guidelines

The general concepts of truthfulness, good taste, and a fair presentation apply to employees engaging in public appearances. Public appearances include participation in a seminar, forum (including an interactive electronic forum), radio or television interview, or other public appearance or public speaking activity.

- The general standards explained earlier in this chapter apply to public appearances.
- If a security is recommended in the public appearance, the RR must have a reasonable basis for the recommendation **and** must disclose:
 - If the RR has a financial interest in the securities of the issuer; the nature of the interest (including derivatives such as options, warrants, *etc.*) and any material conflict of interest of the RR or [The Firm] known at the time of the appearance. (*This disclosure does not apply to investment company securities or variable insurance products.*)
- These requirements do not apply to public appearances by research analysts where the appearance complies with the requirements of FINRA Rule 2711.

5.23.2 Seminars

R Rs should use pre-approved materials and advertisements for sales seminars. Materials and advertising must be submitted to Compliance for approval prior to use if it has not been pre-approved.

5.23.3 Approval

Prior to engaging in public speaking, the RR should prepare an outline and submit a Public Appearance/Seminar/Luncheon Request for approval by the designated supervisor and Compliance at least 3 weeks prior to the event to ensure timely review. The Request should also include a copy of any proposed advertising about the event if using materials that are not pre-approved by SAMCO.

5.23.4 Radio, TV, And Other Extemporaneous Presentations

The general standards of communications with the public apply to all public appearances whether scripted or not. The following should be considered when participating in radio, TV, or other non-scripted public appearances. Also refer to the chapter *GENERAL EMPLOYEE POLICIES* and the section *Media Contact Is Limited To Certain Authorized Persons* that explains restrictions on dealing with the media. Most employees are restricted from such contact except with the specific approval of Compliance.

- Specific recommendations of securities must be avoided unless approved by Compliance or the speaker is authorized under SAMCO's "Media Contact" policy. If a recommendation is made, the speaker is required to disclose material information such as when SAMCO is a market maker in the stock. The current price and any special risks associated with the security also must be disclosed.
- The firm's name must be clearly disclosed in conjunction with any securities or services offered.
- The speaker cannot assume a specific level of audience knowledge, experience or suitability. High risk securities may not be appropriate for discussion in a broadcast format available to any listener.
- Media presentations should be clear and understandable. Avoid overly complex messages and technical terminology which may not be understood by the general audience.
- Include products only where the speaker is licensed to sell the product.

For RRs who are approved to engage in radio, TV, or other extemporaneous public speaking, Compliance is responsible for periodically reviewing the presentations, either on tape or concurrent with broadcast, contacting the RR if unacceptable material is included, and making a record of the review and any action taken.

5.23.5 Securities Sold By Prospectus

When presentations include discussion of securities sold by prospectus (mutual funds, variable annuities, *etc.*), participants should receive a copy of the prospectus. A list of participants should be prepared and an indication included that prospectuses were provided.

5.23.6 Options

Any presentation that includes a discussion of options must be approved by Compliance prior to the presentation. Compliance will maintain a written record of any such approved presentations including an outline or description of the presentation.

5.23.7 Collateralized Mortgage Obligations (CMOs)

Because of the potential complexity of some CMO investments, review by the designated supervisor of the CMO area is required prior to public speaking on these investments. The chapter *COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)* should be reviewed for further information.

5.23.8 Mutual Funds

Refer to the section *Seminars And Other Public Presentations* in the chapter *MUTUAL FUNDS* for specifics regarding mutual fund seminars.

5.24 Cold Callers

[FINRA Notice to Members 95-54]

The following guidelines apply to **unregistered** individuals who engage in cold calling.

5.24.1 Cold Caller Requirements

All cold callers will be employees of SAMCO and will be subject to the usual background investigations for all new employees. Cold callers are supervised by the designated supervisors of their respective departments.

Cold callers will be provided with a copy of SAMCO's policy regarding cold callers and the Calling Restrictions policy as well as SAMCO's Do Not Call list. Cold callers will be asked to acknowledge, in writing, receipt of the policies and the list.

5.24.2 Permissible Cold Caller Activities

Unregistered cold callers are restricted to the following:

- Inviting prospects to SAMCO-sponsored events
- Asking whether a prospect would like to speak to an RR
- Asking whether a prospect would like to receive information about investments

When making a call, the cold caller must identify himself or herself as well as SAMCO and the purpose of the call.

Prior to making calls, the caller must check SAMCO's Do Not Call List.

5.24.3 Prohibited Cold Caller Activities

Unregistered individuals may NOT:

- Solicit prospects to open accounts
- Discuss general or specific products or services
- Pre-qualify prospects by inquiring about financial status or investment objectives
- Use an alias when identifying themselves
- Contact persons included on SAMCO's Do Not Call List

5.24.4 Telemarketing Restrictions

Cold caller activities are subject to the Telephone Consumer Protection Act of 1991 issued by the Federal Communications Commission, as outlined in the section *Calling Restrictions* of this manual.

5.24.5 Scripts

Cold callers will be restricted to SAMCO-approved scripts when making calls. Scripts are approved by the designated supervisor prior to use.

5.25 Electronic Communications

[NASD Rule 3010(d)(2); FINRA Notice 07-59, 01-23, 99-11, 99-03 and 98-11]

[FINRA Rule 3010(d)(2), Notices 07-59, 01-23, 99-03, 99-11 and 98-11]

The Electronic Communications Policy for all employees is included in the chapter *GENERAL EMPLOYEE POLICIES*. This section provides details of these requirements and oversight of electronic communications.

5.25.1 Electronic Communications Systems And Devices

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Internal systems • External systems • Available communications devices
Frequency	<ul style="list-style-type: none"> • As required: determine approved systems/devices
Action	<ul style="list-style-type: none"> • Identify systems and devices approved for employee communications and notify employees (including changes when they occur) • Identify systems for internal-use only and notify employees • Determine whether firewalls will be established to prevent disclosure of sensitive information and breaches of information barriers • Determine whether encryption is necessary, identify communications to be encrypted, and educate employees on use of encryption • At its discretion, audit an individual employee's computer and use of communication devices • Restrict use of systems or devices where appropriate
Record	<ul style="list-style-type: none"> • Records of approved systems, communications to employees, audits of computer/device use and corrective action taken

Compliance will determine what systems and devices may be used for SAMCO business communications. Approved systems and devices are included in the Electronic Communications Policy.

5.25.2 Education And Training

Responsibility	<ul style="list-style-type: none"> • Compliance: develop training • Supervisors/others designated to provide training
Resources	<ul style="list-style-type: none"> • Electronic Communications Policy • Annual compliance meetings • Firm Element continuing education • Annual employee certifications • Periodic reminders distributed to employees
Frequency	<ul style="list-style-type: none"> • As required - develop training • At time of hire of new employees - provide policy • Annually for: <ul style="list-style-type: none"> ○ Compliance meetings ○ Continuing education ○ Certifications • Periodically for reminders
Action	<ul style="list-style-type: none"> • Provide Policy to new employees • Conduct training • Distribute and obtain certifications (Annual Employee Questionnaire) • Send periodic reminders
Record	<ul style="list-style-type: none"> • New employee acknowledgement of Policy • Records of annual compliance meetings • Records of Firm continuing education • Annual certifications • Records of period reminders

Employees are required to acknowledge receipt and compliance with the Electronic Communications Policy.

- Before employees are permitted to use SAMCO-sponsored systems or devices, employees are required to read and agree to the Electronic Communications Policy. The Policy is distributed to all new employees who are required to acknowledge receipt in writing.
- Current employees acknowledge their understanding and agreement with the Policy in SAMCO's annual certification.
- The Firm Element continuing education program and/or annual compliance meeting for registered employees will periodically include training regarding SAMCO's Electronic Communications Policy.

5.25.3 Commercial E-Mail Procedures

[CAN-SPAM Act of 2003]

Responsibility	<ul style="list-style-type: none"> • Compliance
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Resources	<ul style="list-style-type: none"> Notification of recipients wanting to "opt-out"
Frequency	<ul style="list-style-type: none"> Ongoing
Action	<ul style="list-style-type: none"> Include any "opt-out" requests on a "Do-Not-Email" list To the extent available in the electronic mail system, block outgoing e-mails to those who have opted out
Record	<ul style="list-style-type: none"> Do-Not-Email list Requests to opt out

E-mails that are "commercial electronic mail" are subject to the CAN-SPAM Act. Commercial electronic mail includes, under federal law, any electronic mail message primarily for the purpose of sending a commercial advertisement or promotion of a commercial product or service. It does not include electronic mail relating to transactions or where there is a relationship between the sender and the recipient. The Act applies to "persons" who include individuals, groups, unincorporated associations, limited or general partnerships, corporations, or other business entities.

SAMCO's e-mail will comply with the following federal requirements.

- All e-mails will include clear identification of SAMCO, its address and the sender's e-mail address.
- E-mails will be sent using SAMCO's computers or other computers specifically authorized for transmission of SAMCO e-mails.
- Recipients will be given the opportunity to "opt-out" from receiving future commercial electronic mail. The recipient cannot, as a condition of honoring an opt-out request, be charged a fee, be required to provide information other than the recipient's e-mail address and opt-out preferences, and be required to take any steps other than sending a reply e-mail or visiting a single page on an Internet website. Opt-out requests will be effected within 10 business days of the request, as required by the Act.
- Where SAMCO e-mails include other marketers (for example, a mutual fund management company), SAMCO will be considered the "sender" responsible for compliance with the Act unless specifically agreed in advance that another entity included in the e-mail will act as "sender."
- SAMCO will not use "address harvesting" or "dictionary attacks" to obtain e-mail addresses from the Internet.

5.25.4 Instant Messaging

[FINRA Notice to Members 03-33]

Responsibility	<ul style="list-style-type: none"> Designated supervisor: review instant messages Compliance: determine extent of permitted instant messaging
Resources	<ul style="list-style-type: none"> Vendor or in-house program or service designed for review, retention, and retrieval of instant messages
Frequency	<ul style="list-style-type: none"> For authorized instant messaging, daily review

Action	<ul style="list-style-type: none"> • Compliance: <ul style="list-style-type: none"> ○ Determine whether SAMCO will permit instant messaging and, if so, what departments and/or personnel are permitted to use instant messages ○ Determine system for review, retention, and retrieval of instant messages • Designated supervisor: review instant messages in accordance with sampling or review of all messages as outlined in the section <i>Outgoing Correspondence</i>
Record	<ul style="list-style-type: none"> • Instant messages are retained electronically • Record of review is included in a log or recorded electronically • Compliance retains agreements with outside vendors engaged to provide surveillance and written record of departments and/or personnel authorized to use instant messaging

Instant messaging is a form of electronic communication that is subject to SAMCO's review and record retention policies.

5.25.5 Review Of Electronic Communications

This section outlines procedures for reviewing electronic communications.

5.25.5.1 Methods Of Review

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Internal programs • External programs • Electronic communications from approved systems • Reviewers including qualified supervisors and designees
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Determine programs/methods of review • Communicate review requirements to supervisors and designees • For research communications, establish copies to Compliance for review • Determine training needs for supervisors and designees including training prior to assuming review responsibilities • Include electronic communications reviews in branch/department audits • For Lexicon-based programs, review flagged communications and take corrective action, if necessary (notify supervisor, education, restriction of access to systems or devices, suspension, termination, etc.)
Record	<ul style="list-style-type: none"> • Records of external programs used for reviews • Records of training including subject matter, names of those trained, when, and by whom or what method • Records of flagged communications that require corrective action including action taken

All electronic communications are subject to review. Types of review include:

- Lexicon based program
- sort by RR for specific time period

5.25.5.1.1 Delegation Of Review

The designated supervisor is responsible for reviewing electronic communications and taking necessary actions. The review may be delegated to a qualified reviewer; "qualified" means the individual has been trained in what to review and what items to refer to the supervisor and/or Compliance. Though reviews are delegated, the supervisor is ultimately responsible for compliance with review requirements. The delegated reviewer will refer the following communications:

- Questionable language to the designated supervisor or Compliance
- Objectionable language or content (profanity, *etc.*) to the supervisor or Compliance
- Complaints to the designated supervisor **and** Compliance
- Advertising not previously approved to Compliance
- Communications regarding errors or account designation changes in orders to the supervisor

5.25.5.2 Communications Review Before Or After Sending

The following communications require approval by a qualified supervisor **prior to** sending. Other types of communication are subject to post-sending review.

- Advertising (Compliance approval required)
- Communicatins defined as "research" (see the section Outgoing Correspondence for further information)
- Form letters (approval of initial form required; subsequent communicaitons may be sent without prior approval if there is no change in previously approved content)
- All communicaitons to retail investors about CMO's
- All communicaitons to retail investora about options

5.25.5.3 Review Of Retail Customer Communications

Responsibility	<ul style="list-style-type: none">• Branch/department manager: review of communications• Compliance: branch/department reviews
Resources	<ul style="list-style-type: none">• Incoming and outgoing communications
Frequency	<ul style="list-style-type: none">• Daily - review of communications• Periodically as scheduled - branch/department reviews
Action	<ul style="list-style-type: none">• Supervisor review of:<ul style="list-style-type: none">◦ flagged emails• Supervisor review for:<ul style="list-style-type: none">◦ complaints◦ appropriateness of language◦ appropriateness of recommendations• Compliance review during retail branch/department internal examinations• Take corrective action, if necessary (education, restricting access to electronic communications, or other action in consultation with Compliance)
Record	<ul style="list-style-type: none">• Electronic records of communications

	<ul style="list-style-type: none"> • Electronic record of review • Corrective action (in employee's file) • Branch/department reviews (in Compliance files)
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Incoming and outgoing customer electronic communications are reviewed, and complaints are referred to Compliance.

5.25.5.4 Review Of Institutional Communications

Responsibility	<ul style="list-style-type: none"> • Department manager: review of communications • Compliance: department reviews
Resources	<ul style="list-style-type: none"> • Incoming and outgoing communications
Frequency	<ul style="list-style-type: none"> • Daily - review of communications • Periodically as scheduled - department reviews
Action	<ul style="list-style-type: none"> • Supervisor review of: <ul style="list-style-type: none"> ◦ [level of review] • Supervisor review for: <ul style="list-style-type: none"> ◦ complaints ◦ appropriateness of language ◦ appropriateness of recommendations • Compliance review during department internal examinations • Take corrective action, if necessary (education, restricting access to electronic communications, or other action in consultation with Compliance)
Record	<ul style="list-style-type: none"> • Electronic records of communications • Electronic record of review • Corrective action (in employee's file) • Department reviews (in Compliance files)

Incoming and outgoing customer electronic communications are reviewed, and complaints are referred to Compliance.

5.25.5.5 Review Of Investment Banking Communications

Responsibility	<ul style="list-style-type: none"> • Department manager: review of communications • Compliance: act as intermediary for communications between Research and investment banking; department reviews
Resources	<ul style="list-style-type: none"> • Incoming and outgoing communications
Frequency	<ul style="list-style-type: none"> • Daily - review of communications • Periodically as scheduled - department reviews
Action	<ul style="list-style-type: none"> • Supervisor review of: <ul style="list-style-type: none"> ◦ flagged emails • Compliance: <ul style="list-style-type: none"> ◦ Act as intermediary for communications between Research

	<ul style="list-style-type: none"> and investment banking and forward communications if appropriate <ul style="list-style-type: none"> Review during department internal examinations Take corrective action, if necessary (education, restricting access to electronic communications, or other action in consultation with Compliance)
Record	<ul style="list-style-type: none"> Electronic records of communications Electronic record of review Corrective action (in employee's file) Department reviews (in Compliance files)

- All communications between Research and investment banking personnel must be routed through Compliance and may not be directly sent.
- Confidentiality of communications about confidential investment banking activities must be protected by limiting access to information (passwords, closing open pages when not in use, avoiding use of PDAs in public places, *etc.*).
- Communications are subject to review and retention.

5.25.5.6 Review Of Proprietary Trading Desk Communications

Responsibility	<ul style="list-style-type: none"> Department manager: review of communications Compliance: department reviews
Resources	<ul style="list-style-type: none"> Incoming and outgoing communications
Frequency	<ul style="list-style-type: none"> Daily - review of communications Periodically as scheduled - department reviews
Action	<ul style="list-style-type: none"> Supervisor review of: <ul style="list-style-type: none"> flagged emails Compliance review during department internal examinations Take corrective action, if necessary (education, restricting access to electronic communications, or other action in consultation with Compliance)
Record	<ul style="list-style-type: none"> Electronic records of communications Electronic record of review Corrective action (in employee's file) Department reviews (in Compliance files)

Traders must maintain the confidentiality of orders and must not communicate order information except as needed to handle and execute orders. Trader communications are subject to review and retention.

5.25.5.7 Special Reviews

Compliance may impose different standards of review that may include review of all incoming and outgoing communications regardless of form; pre-approval; or other special reviews. See the section *Heightened Supervision* in the chapter *EMPLOYMENT, REGISTRATION AND LICENSING* for further information.

5.25.5.8 Use Of Non-Firm Systems Or Devices

SAMCO may approve the use of non-Firm systems or devices by certain employees. When exceptions are approved, the employee will be required to submit a separate certification regarding the use of the external system/device and re-certify annually; usage will be monitored and periodically audited by Compliance.

5.25.6 Advertising

Electronic advertising is subject to pre-use review by Compliance. Refer to the section *Retail Communications* in this chapter.

5.25.7 Internet

[FINRA Guide to the Internet for Registered Representatives: <http://www.finra.org/Industry/Issues/Advertising/p006118>]

This section outlines procedures for accessing communications systems on the web and posting information to the web, including a firm web site.

5.25.7.1 Social Media, Blogs, Web Sites And Other Electronic Communication Systems

[FINRA Regulatory Notice 10-06]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor• Compliance
Resources	<ul style="list-style-type: none">• Requests to participate in social networks, other systems• Postings on sites
Frequency	<ul style="list-style-type: none">• Approval of participants - as required• Weekly - review of sites
Action	<ul style="list-style-type: none">• Compliance:<ul style="list-style-type: none">○ Review and approve media for RR participation particularly considering the ability to monitor and retain records of communications○ Review requests to participate including review of RR's background○ Approve or disapprove participation○ Arrange training for approved participants○ Approve or disapprove the use of personal communication devices particularly considering the ability to review and retain records of communications; provide guidelines to RRs if such devices are approved for use• Designated supervisor:<ul style="list-style-type: none">○ Review media:<ul style="list-style-type: none">▪ Using lexicon-based reviews▪ Reviewing all communications▪ Reviewing communications on a sampling basis▪ Review interactive communications on a sampling basis○ Review and approve/disapprove static postings○ Remove inappropriate postings○ Take corrective action where problems are noted including blocking a 3rd party from posting; disciplining an RR which may include added training, removal of approval for

	participation, other appropriate action
Record	<ul style="list-style-type: none"> • RRs approved/disapproved for participation • Templates, if available • Approved static postings • Records of communications and corrective action taken • Review of media and corrective action taken

The use of social media (Facebook, LinkedIn, Twitter, *etc.*), blogs, web sites, and other electronic forums (collectively referred to as "media" in this policy) for the purposes of advertising, soliciting business, or in any way communicating about Firm business is subject to the following requirements.

5.25.7.1.1 Definitions

Static sites or postings: Information that is posted and does not change unless changed by the person or entity that posted the information. Static postings are considered "advertising" under regulatory rules and require **prior approval**.

Interactive sites or postings: Sites where there are spontaneous communications between parties. Considered "public appearances" by regulators requiring post-use approval.

5.25.7.1.2 Permitted Media

The use of specific media requires the approval of Compliance **prior to** access for business purposes. The proposed media must be able to provide access for monitoring and the ability to provide records of an RR's participation and communications. Regulatory rules require supervision and maintaining of records of use for business purposes.

5.25.7.1.3 Permitted Participation

Compliance must approve RRs **prior to** their participating in social media web sites. Approval will depend on the type of participation requested; SAMCO's ability to monitor participation and retain records of participation; and factors considered regarding the RR including demonstrable ability to comply with rules, regulations and Firm policy (this will include consideration of an RR's past disciplinary history and current compliance with firm policies and procedures).

5.25.7.1.4 Accuracy And Truthfulness

All electronic communications by SAMCO and its RRs must be accurate and truthful. They must not include misleading statements or claims and language must be fair and balanced.

5.25.7.1.5 Interactive Media

Where RRs are permitted to participate in interactive media, a record must be retained of all interactive "conversations" as part of SAMCO's records. These records will be reviewed by the designated supervisor in accordance with firm policy on review of electronic communications (either on a sampling basis or review of all communications).

5.25.7.1.6 Static Postings

Where an RR requests to make a static posting to media (such as a biography), a copy of the proposed posting must be provided to Compliance **prior to** posting. If approved, Compliance must then be notified when the posting is "launched." Any proposed changes to a static posting must be provided to Compliance for review and approval prior to posting. A record will be retained of postings and subsequent changes.

5.25.7.1.7 Third Party Sites

Customers or other third parties may be permitted to post to SAMCO's site or other sites where RRs participate for business purposes. SAMCO is not required to supervise those postings unless SAMCO or an employee was involved in the preparation of the content or explicitly or implicitly endorses or approves the content. **RRs are prohibited from participating in or endorsing third-party postings.** The Firm's site includes a disclaimer that third party posts do not reflect the views of SAMCO and have not been reviewed by SAMCO for completeness or accuracy.

Links to third party sites are prohibited if SAMCO or an employee knows or has reason to know it contains false or misleading content.

5.25.7.1.8 Prohibition Against Recommendations

RRs are prohibited from making specific recommendations in media. Postings must be only general in nature regarding the RR and SAMCO's services.

5.25.7.2 Firm Web Site

[FINRA Rule 2210; FINRA Notice to Members 07-02; SIPC By-Laws, Article 11 Section 4; SEC Guidance for public companies on the use of company web sites: <http://www.sec.gov/rules/interp/2008/34-58288.pdf>]

SAMCO has established a web site. Any information to be included on the web site requires the **prior approval** of Compliance.

If SAMCO's site refers to its membership with FINRA, a hyperlink to the FINRA internet home page will be included. If SIPC membership is included on the site, a hyperlink to SIPC's web site will be shown.

5.25.7.3 RR Web Sites

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Prototype web site formats Proposals for sites Changes to sites
Frequency	<ul style="list-style-type: none"> As required - approval Monthly - review sites
Action	<ul style="list-style-type: none"> Develop and update prototype sites Review proposed sites submitted by RRs Revise as needed and approve/disapprove proposals Review sites for compliance with Firm requirements Take corrective action if necessary which may include requiring revisions; limiting RRs whose sites fail to comply with pre-established requirements
Record	<ul style="list-style-type: none"> Proposals including revisions, approval, disapproval Record of monthly review of approved sites and actions taken Record of the appearance of each RR web site over the past 3 years (including all changes)

5.25.7.4 Prohibited And Blocked Sites

Responsibility	<ul style="list-style-type: none"> Compliance
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Resources	<ul style="list-style-type: none"> • Internal or external programs to block sites • Programs available to monitor Internet usage
Frequency	<ul style="list-style-type: none"> • Ongoing
Action	<ul style="list-style-type: none"> • Identify sites for blocking (offensive sites, sites contrary to SAMCO's interests, sites that interfere with business) <ul style="list-style-type: none"> ○ Block sites ○ Periodically test blocking • Monitor internet usage by employees (depending on available technology) • If access to prohibited sites is identified: <ul style="list-style-type: none"> ○ Notify supervisor ○ Take corrective action (education, restricting internet access, or other action as appropriate)
Record	<ul style="list-style-type: none"> • Record of blocked sites/programs used • Records of prohibited access and corrective action taken

Employees are prohibited from accessing offensive sites or sites contrary to SAMCO's interests or that interfere with business. SAMCO may block access to certain sites.

5.25.7.5 Data Feeds

Any third party data feeds tied to SAMCO's or an RR's web site must be reviewed by Compliance prior to use. Reviews will identify the proficiency and efficacy of the data provider to feed accurate and timely information. Compliance will advise the requestor whether the data provider is approved and will retain records of its review.

5.25.7.6 Third-Party Postings

Compliance must review and approve any requests to include third-party postings on SAMCO's web site prior to inclusion of such postings on the site. If third-party postings (including customer postings) are permitted, the following requirements will apply:

- A disclaimer will be included on the web site stating that such posts are not those of SAMCO; do not reflect the views of SAMCO; and SAMCO does not take responsibility for the content of such posts.
- Potential third-party posters must pre-register and will be screened by Compliance before being allowed to post content.
- The site is regularly reviewed and third-party posts will be monitored as part of that review to mitigate any perception that SAMCO is adopting any post.
- Usage guidelines will be provided to customers or other third parties permitted to post on firm-sponsored sites.
- Compliance may develop standard responses that RRs will be authorized to use in response to third-party postings on social media web sites.

Compliance will retain records of registration and screening of third parties allowed to post.

5.25.8 Hyperlinks

[FINRA Interpretation Letter from Thomas M. Selman to the Investment Company Institute, November 11, 1997]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Proposed web site or other material that includes hyperlinks
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Confirm hyperlink conforms to requirements for inclusion
Record	<ul style="list-style-type: none"> Web site or other material maintained in review file

When hyperlinks to third-party sites are included in SAMCO communications or on a SAMCO web site, it is important the hyperlink meets the following conditions to avoid liability for the content or regulatory filing of information included in the third-party site:

- A hyperlink may not be established to a site known (or there is reason to know) to contain false or misleading information.
- The hyperlink must be continuously available to investors who visit the site.
- SAMCO or its employees cannot have discretion to alter information on the third-party site.
- Investors have access to the hyperlinked site whether or not it contains material favorable to SAMCO.
- The linked site can be updated or changed by the third party, following which investors would still be able to use the hyperlink.

5.25.9 Policy Violations

Responsibility	<ul style="list-style-type: none"> Compliance
Resources	<ul style="list-style-type: none"> Records of communications
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Review the employee's file to determine if there have been prior violations Notify employee and his/her supervisor If appropriate action by the supervisor is not forthcoming, contact the supervisor's supervisor Where violations are recurring, determine whether to audit the employee's computer files Determine disciplinary action
Record	<ul style="list-style-type: none"> Records of violative communications and action taken

Employees who violate SAMCO's Electronic Communications Policy are subject to disciplinary action which may range from education, restricting electronic and/or Internet access, to suspension or termination depending on the nature and seriousness of the infraction. Compliance determines the appropriate action to be taken.

5.26 Identification Of Sources

When using communications not prepared under the direct supervision of SAMCO, it is necessary to identify, on the communication, the person or entity that prepared the material. This includes research reports obtained from outside sources.

6 FINANCIAL AND OPERATIONS PROCEDURES

This chapter provides key policies and procedures affecting the financial and operations areas of SAMCO. Detailed operations procedures are included in the Firm's (or a clearing firm's) operations procedures manuals.

SAMCO has designated a Financial and Operations Principal who is responsible for general oversight of financial and operations areas of the Firm. Supervisors of specific financial or operations areas are responsible for day-to-day procedures.

6.1 Qualification Of Operations Personnel

[FINRA Rule 1230(b)(6)(A) and 1250; FINRA Regulatory Notice 11-33; FINRA Qualifications FAQ: <http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/P124607>]

Certain operations personnel are considered "covered persons" under FINRA Rule 1230 because of their responsibilities for "covered functions" as defined in the Rule. These personnel are required to qualify as "Operations Professionals" by completing the Series 99 qualification examination or by qualifying for an exception because of the person's other registration qualifications. In general the requirements apply to senior management responsible for covered functions; persons designated by senior management to supervise, manage, or approve or authorize work relating to the covered functions; and persons with authority or discretion materially to commit SAMCO's capital relating to covered functions. The Rule should be consulted for definitions of covered persons and covered functions.

In addition, covered persons are required to participate in Regulatory Element and Firm Element continuing education. Refer to the chapter *TRAINING AND EDUCATION* for procedures regarding continuing education.

The Operations designated supervisor is responsible for confirming that covered persons complete the necessary requirements for registration and continuing education and to restrict an employee's activities if either requirement is not completed within required timeframes.

6.2 Books And Records

[SEC Securities Exchange Act of 1934 Rule 17a-3 and Rule 17a-4; FINRA Rule 4510, 4511 and 4512; FINRA New And Amended Recordkeeping Checklist: http://www.finra.org/web/groups/rules_regs/documents/rules_regs/p006378.pdf; MSRB Rule G-8 and G-9]

6.2.1 Introduction

SEC Rule 17a-3 identifies the types of books and records to be retained by SAMCO and 17a-4 identifies the period these records are to be retained. SROs also specify certain record requirements. Designated supervisors are responsible for retaining required records for areas under their supervision. The FINOP is responsible for establishing and maintaining SAMCO's record retention schedule.

For accounts and other business introduced to a clearing firm, the clearing firm is responsible for retaining certain records as outlined in the clearing agreement.

6.2.2 Electronic Storage Of Records

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)]

Responsibility	<ul style="list-style-type: none">• Designated supervisor
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Resources	<ul style="list-style-type: none"> Records required to be retained under SEC and SRO rules
Frequency	<ul style="list-style-type: none"> Ongoing recordkeeping, as required by rule Audit system - ongoing and periodic
Action	<ul style="list-style-type: none"> Develop internal system or choose a vendor or other third party that meets rule requirements Contract with an independent third party download partner, if appropriate Notify DEA when initiating electronic storage and provide third party representation Provide revised notifications to DEA if necessary Obtain senior management approval of system configuration to store records and subsequent changes Issue passwords to authorized personnel and disable passwords for terminated employees or those no longer requiring access Take corrective action internally or with outside vendor if anomalies are detected Establish audit system for accountability regarding the input of records into the storage system
Record	<ul style="list-style-type: none"> Contracts with vendors or other third parties Notification(s) to DEA Written approval from senior management regarding system configuration Record of corrective action taken, if necessary, when anomalies are detected Record of passwords issued and disabled Audit system and anomalies detected including corrective action taken

SAMCO utilizes electronic storage media and/or micrographic media for certain records.

6.2.2.1 Notification To Examining Authority

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)(2)(i)]

SAMCO has provided the required notification to its designated examining authority (DEA) prior to employing electronic storage media. The independent third party with download access is also required to submit an undertaking indicating it agrees to promptly furnish information to regulators.

6.2.2.2 Conditions

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)(2)(ii)]

As required by rule, SAMCO's electronic storage media meets the following conditions:

- non-rewritable, non-erasable format
- automatic verification of the quality and accuracy of the process
- serialize original (and duplicate units) and time-date for required retention period
- capacity to readily download indexes and records

6.2.2.3 Ability To Retrieve And Reproduce

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)(3)]

SAMCO's electronic or micrographic storage will also meet the following requirements:

- facilities for immediate, easily readable production of records
- ability to provide facsimile enlargements
- duplicate copies stored separately from the originals
- organized and indexed accurately
- current information necessary to access records and indexes
- independent third party who has access and the ability to download records

6.2.2.4 Audit System

The third party that provides electronic storage services has an audit system to test, on an ongoing basis, the integrity of the Firm's records retained in electronic storage media. Anomalies reported by the third party will be reviewed by the FINOP or another designated person on the FINOP's behalf to ensure corrective action has been taken and records are retained as required.

6.2.2.5 Confidentiality Of Electronic Records

SAMCO (in conjunction with any vendor) protects against unauthorized access to or use of customer records by use of a password system. Passwords will be changed periodically and disabled for terminated employees or employees no longer requiring access.

6.2.3 Availability Of Records In Offices

Required records under Rules 17a-3 and 17a-4 are available in office locations. The FINOP is responsible for establishing a method for producing required records at office locations upon the request of a regulator. The section *Office Records* in the chapter *OFFICES* discusses this subject in more detail.

6.3 Calculation And Reporting Of Net Capital

[SEC Securities Exchange Act of 1934 Rule 15c3-1, Rule 17a-5 and Rule 17a-11; FINRA Rule 4110, 4120, 4130, 4140, 4521 and 4524]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Financial and transaction records
Frequency	<ul style="list-style-type: none">• Ongoing
Action	<ul style="list-style-type: none">• Maintain ongoing calculation of SAMCO's net capital• Report net capital as required• Report net capital deficiencies as required, when necessary
Record	<ul style="list-style-type: none">• Records retained by the FINOP include:<ul style="list-style-type: none">○ FOCUS reports○ Other net capital calculations

The calculation and monitoring of net capital is the responsibility of the FINOP who also is responsible for ensuring the accurate and timely reporting of periodic net capital reports. Some of the FINOP's specific responsibilities include:

- Review and filing of SAMCO's financial reports and periodic review of accounting records
- Periodic consideration of whether SAMCO's minimum net capital requirements have changed because of changes in SAMCO's business

- Supervising additions to, and withdrawals from, the equity capital of SAMCO
- Reporting borrowings and subordinated loans for capital purposes
- Establishing procedures for retention of required financial books and records

If SAMCO becomes deficient in its net capital position, the FINOP is responsible for making the necessary reports to regulators and communicating any restrictions in business that may result.

6.4 Annual Audit Reports

[SEC Securities Exchange Act of 1934 Rule 17a-5(d); FINRA Regulatory Notice 11-46]

The FINOP is responsible for filing of SAMCO's annual audited financial statements with regulators, not more than 60 days after the date of the statements, including the oath and affirmation page. Filing is made electronically with FINRA and hard copies are filed with the SEC's Washington office and SAMCO's regional SEC office. The FINOP will retain records of the filings including the filings themselves, names of regulators, and date of filing.

Reports will be as of the same fixed or determinable date each year, unless a change is approved in writing by FINRA. A copy of FINRA's written approval will be sent to SAMCO's SEC regional office.

6.5 Reconciliations And Bank Records

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Bank records
Frequency	<ul style="list-style-type: none"> • Monthly
Action	<ul style="list-style-type: none"> • Reconcile bank accounts against SAMCO's records
Record	<ul style="list-style-type: none"> • Bank statements and other bank records, retained by FINOP

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.

6.6 Designation Of Accountant

[SEC Securities Exchange Act of 1934 Rule 17a-5(f)]

The FINOP is responsible for filing notice of the designation of its accountant by December 10 of each year with FINRA, the SEC's principal office, and SAMCO's SEC regional office. If the agreement with the accountant is continuous providing for successive annual audits, notice is not required annually. The following additional requirements apply:

- An agreement must exist with an independent public accountant by December 1 covering a contractual commitment to conduct SAMCO's annual audit during the following calendar year.
- If the agreement is for a single audit or if the continuing agreement is terminated or amended, a filing is required by December 10.
- If SAMCO is exempt from filing an annual audited financial statement, notice must still be filed indicating the date as of which an unaudited report will be prepared.
- Notice must be filed with FINRA and the two SEC offices within 15 days after:
 - SAMCO notifies the accountant that its services will be terminated;

- the accountant notifies SAMCO it will not continue its engagement; or
- a new accountant has been engaged without notice to or by SAMCO's current accountant.

The FINOP is responsible for maintaining a record of filing the required notices.

6.7 Guarantees By, Or Flow Through Benefits For, Members

[FINRA Rule 4150]

Whenever SAMCO guarantees, endorses, or assumes, directly or indirectly, the obligations or liabilities of another person (including an entity), a written request will be made to FINRA. Prior written approval from FINRA is required whenever SAMCO receives flow-through capital benefits in accordance with Appendix C of SEC Rule 15c3-1. The FINOP is responsible for filing necessary requests for such arrangements; responding to subsequent FINRA requests for information; complying with FINRA rule requirements; and maintaining records regarding such arrangements.

The requirements when entering into such an arrangement include the following:

- SAMCO must have the authority to make available to FINRA the books and records of the other person or entity for inspection in the U.S. The other person's books and records must be kept separately from those of SAMCO.
- SAMCO is required to provide FINRA with the person's FOCUS reports simultaneous with their being filed with the person's designated examining authority (DEA), unless the person's DEA is FINRA. If the person is not a registered broker-dealer, SAMCO will submit financial and operational statements in a format and for time periods required by FINRA.
- Guarantees executed in the normal course of business (trade guarantees, signature guarantees, endorsement of securities and the writing of options) are not subject to these requirements. Guarantees regarding the writing of options are not subject if appropriately recorded in SAMCO's books and records and reflected in net capital computations.

6.8 General Ledger And Suspense Accounts

[FINRA Rule 4523]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Ledger and suspense accounts
Frequency	<ul style="list-style-type: none"> • Ongoing - oversee entries • Monthly or more frequently - review of accounts
Action	<ul style="list-style-type: none"> • Oversee entries • Determine accounts are current and accurate • Review accounts to determine they are accurate and any aged or unresolved are promptly identified for research and possible transfer to suspense account(s)
Record	<ul style="list-style-type: none"> • General and suspense accounts • Resolution of aged or unresolved items • Record of reviews including reviewers initials, date reviewed, notes of action taken, if any

The designated supervisor (or supervisors, if accounts are assigned to multiple persons) is responsible for oversight of general ledger and suspense accounts. Suspense accounts must be clearly identified as such and record money charges or credits and receipts or deliveries of securities whose ultimate disposition is pending determination. The record must include all information known for each item recorded.

6.9 Financial Reporting

[SEC Securities Exchange Act of 1934 Rule 17a-5 and Rule 17a-11; FINRA Rule 4520 Series]

The FINOP is responsible for financial reporting and payment of fees and assessments and maintaining records of reporting and payment. Some of the requirements include:

- Filing net capital reports
- Reporting net capital deficiencies
- Reporting notice of books and records deficiencies [17a-11(d)]
- Preparation and filing of unaudited financial statements
- Engaging outside accountants to conduct SAMCO's annual audit and notifying regulators when there is a change of accountant
- Filing audited financial statements with regulators and providing to customers, as required
- Providing monthly statements of accounts to customers
- Notifying regulators of any change in SAMCO's fiscal year
- Payment of assessments and fees to regulators

6.9.1 Preparation Of Financial Reports

The FINOP is responsible for preparing and reviewing financial reports. While the FINOP may delegate responsibility for gathering information and preparing the reports, the FINOP is ultimately responsible for reporting accurate information.

Preparation of reports will include the following procedures:

- Gathering information through SAMCO's records and systems to compile financial information.
- Working with outside auditors, when appropriate.
- Drafting reports.
- Determining the accuracy of calculations and information included in the report.
- Providing information to senior management and others, as appropriate.
- Sending reports to designated regulators.
- Providing information for publication to customers, where required by rule.

The FINOP will maintain files including calculations and other information utilized for preparing financial reports and records of internal, regulatory, and other external distribution of reports, as required.

6.9.2 Disclosure Of Financial Condition

[FINRA Rule 2261]

Upon request, information about SAMCO's financial condition in its most recent balance sheet will be made available to customers and to any member firm that is party to an open transaction or has on deposit cash or securities with SAMCO. The information may be provided in paper or electronic form (if for a customer, the customer must consent to electronic delivery).

6.10 Regulation T And Extension Of Credit To Customers

[FINRA Rule 4210; Federal Reserve Regulation T]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Various • FINRA Customer Debits Report
Frequency	<ul style="list-style-type: none"> • Ongoing
Action	<ul style="list-style-type: none"> • Monitor accounts for compliance with Regulation T requirements • Request extensions, issue margin calls, <i>etc.</i> • Discontinue margin trading for accounts missing required signed margin agreements • Review FINRA report for unsecured debits and take corrective action as necessary which may include consultation with RR and RR's supervisor, closing the account, or other appropriate action
Record	<ul style="list-style-type: none"> • Various records maintained by Operations • FINRA report including notes of action taken

6.10.1 Compliance With Regulation T

It is the responsibility of the FINOP to establish operating procedures to ensure compliance with Regulation T regarding the settlement of customer transactions.

6.10.2 Customer Margin Balance Report

[FINRA Rule 4521(d)]

If SAMCO carries customer margin accounts, the FINOP is responsible for filing the Customer Margin Balance Form on a settlement date basis, as of the last business day of the month. For any month where there is no information to submit, a report will be filed indicating such. The report is due as promptly as possible after the last business day of the month, but in no event later than the sixth business day of the following month and is filed through the FINRA Firm Gateway.

The FINOP is responsible for retaining records of filings.

6.11 Fidelity Bonding

[FINRA Rule 4360]

As required, SAMCO is a member of SIPC and maintains required blanket fidelity bonding coverage based on SAMCO's net capital requirement. The FINOP is responsible for obtaining and maintaining fidelity bonding as required by rule and verifying the adequacy of coverage and making necessary adjustments on at least an annual basis on the anniversary date of the issuance of the fidelity bond.

6.12 Independent Verification Of Assets

[FINRA Rule 4160]

SAMCO may custody assets (customer or proprietary) at financial institutions that are not members of FINRA. FINRA may request written verification of Firm assets held by that institution. If FINRA notifies SAMCO that the institution has failed to respond to FINRA, SAMCO will withdraw its assets promptly and transfer them to another financial institution. This requirement does not apply to:

- proprietary assets that are treated as non-allowable assets under Exchange Act Rule 15c3-1; or
- instances where FINRA determines there is no independent custody or record ownership of assets

The FINOP is responsible for withdrawing affected assets when notified by FINRA. Contracts with non-member financial institutions may include the obligation that the financial institution comply with FINRA requests for verification of assets. The FINOP controls records of custody arrangements and contracts.

6.13 Cash Deposits Not Accepted

SAMCO does not accept cash or currency from customers. If a customer attempts to deposit cash or currency, the employee receiving the deposit is responsible for refusing the deposit and advising the customer SAMCO will only accept checks.

In the event cash is inadvertently accepted, the following steps must be followed:

- Immediately provide the cash to the cashier or other authorized Operations personnel.
- The cashier or Operations is responsible for counting the cash (2 people must be present to verify the amount) and entering the amount into SAMCO's customer account system for credit to the customer's account.
- Immediately thereafter the cash must be walked to SAMCO's bank for credit to the account maintained for the benefit of customers or, if no account exists, obtain a cashier's check or money order made payable to SAMCO (or its clearing firm if applicable) and then deposit or send the check/money order to the bank account for customers the same day.
- The Operations Manager is responsible for filing Form 104 (Currency Transaction Report) with the IRS by the 15th calendar day after receipt for cash in excess of \$10,000 for one person on any one day.
- The designated supervisor of Operations is responsible for retaining a file of forms filed with the IRS.

6.14 Cash Equivalents

SAMCO also does not accept deposits of cash equivalents such as travelers checks, money orders, or cashiers checks. Customers attempting to deposit cash equivalents should be advised to instead provide a personal check for deposit to their account.

6.15 Risk Management

[FINRA Notice to Members 99-92]

Responsibility	<ul style="list-style-type: none"> • FINOP • Risk Manager • Credit Manager • Internal Audit • Outside auditors • Designated committees, if appointed: <ul style="list-style-type: none"> ○ Credit committee ○ Risk management committee ○ Audit committee
Resources	<ul style="list-style-type: none"> • Internal reports • Regulatory reports • Financial statements

Frequency	<ul style="list-style-type: none"> • Ongoing
Action	<ul style="list-style-type: none"> • Establish risk guidelines including inventory limits, counterparty trading limits, etc. • Review regulatory risks • Evaluate risk exposure of business lines • Report to senior management (and holding company, if appropriate) as required • Take corrective action to reduce risk
Record	<ul style="list-style-type: none"> • Review of internal and regulatory reports • Audit reports (internal and external) • Minutes of committees designated to oversee risk • Corrective action taken

This section generally outlines SAMCO procedures designed to address "risk management." Because these procedures address various lines of business that operate in a constantly changing market environment, they are not static and should be adapted by the designated supervisor to meet the needs of SAMCO on an ongoing basis.

6.15.1 Risk Practices Regarding Employment And Employees

SAMCO has established procedures regarding the hiring of personnel; conduct and review of employee accounts; granting of authority to act in various capacities on behalf of SAMCO; and the integrity of SAMCO's systems and financial reporting.

6.15.1.1 Background Checks

One of SAMCO's first lines of defense is the hiring of qualified people who do not bring high-risk behavior to their positions. SAMCO conducts background checks on all applicants for employment with SAMCO. All offers of employment are considered conditional pending the outcome of the background checks. These background checks include contact with the applicant's prior employers for at least the past three years. Any adverse information is referred to the hiring manager for consideration prior to finalization of employment.

Also refer to the section *Hiring Procedures* in the chapter *EMPLOYMENT, REGISTRATION AND LICENSING* for more information about hiring procedures.

6.15.1.2 Employee Accounts

Employees are subject to policies governing the conduct of their personal securities accounts. Refer to the section *Employee And Employee Related Accounts* in the chapter *GENERAL EMPLOYEE POLICIES* as well as the chapter on *INSIDER TRADING*.

6.15.1.3 Authority

Employees may only act on behalf of SAMCO within the boundaries of authority granted them by SAMCO. The following generally outlines the authority of certain employees or committees and their respective responsibilities.

6.15.1.3.1 Board Of Directors

SAMCO's Board of Directors meets regularly to take necessary action on behalf of SAMCO. On at least an annual basis, the Board of Directors will affirm the authority of designated Board committees as well as certain employees granted specific powers by the Board.

6.15.1.3.2 Chief Financial Officer

The Chief Financial Officer (or his/her designee) is responsible for the following on behalf of SAMCO:

- Establishing accounting procedures in accordance with generally accepted accounting principles
- Ensuring the accurate and timely filing of SAMCO financial reports with regulators and others where financial reports are required
- Establishing bank accounts and designating employees authorized to sign checks and transfer funds on behalf of SAMCO
- Interacting with SAMCO's public accounting firm and coordinating the providing of information requested during SAMCO's annual audit
- Follow up regarding exceptions or recommendations referred by the outside public accounting firm

6.15.1.3.3 Department/Business Unit Managers

Department and business unit managers are responsible for oversight of the activities within their respective department or business unit, with the interests of customers and SAMCO as foremost considerations. The general scope of responsibility includes, among other responsibilities, the following:

- Hiring and termination of department/business unit personnel
- Supervision of department/business unit personnel including periodic reviews and salary administration
- Creating a safe and positive work environment for personnel
- Establishing and administering a budget to conduct the activities of the department/business unit
- Ensuring only authorized personnel act on behalf of SAMCO (check signing, purchasing supplies, etc.)

6.15.1.3.4 Branch Managers

In addition to the responsibilities listed above, Branch Managers are charged with the supervision of RRs and support staff in their dealings with SAMCO's customers.

6.15.2 New Accounts

In addition to review and approval by the designated Branch or Department Manager, new accounts are subject to SAMCO's Customer Identification Program (described in the Anti-Money Laundering Program) and verification against a vendor database of potential "problem" accounts.

6.15.3 Firm Computers And Computerized Data

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

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

6.15.4 Extension Of Credit

SAMCO has established procedures for overseeing compliance with Regulation T or, for business introduced to a clearing firm, the clearing firm is responsible for Reg T compliance and overseeing the extension of credit. This section includes additional procedures used by SAMCO to identify and address risk relating to the extension of credit.

6.15.4.1 Concentrated Securities Positions

SAMCO has established procedures for reviewing credit risk for concentrated positions within accounts and credit risk associated with firm-wide concentrated positions.

6.15.4.1.1 Individual Account Concentration

For any margin account where one position represents 50% or more of the value of the account, the account will be reviewed and considered for a higher maintenance requirement or reduction of the concentrated position.

6.15.4.1.2 Firm Concentration

SAMCO identifies positions that exceed 5% of the outstanding shares of the company.

6.15.5 Proprietary Accounts

SAMCO has established procedures to limit risk from proprietary positions.

6.15.5.1 Valuation Of Positions Held

The Clearing Firm is responsible for valuing positions held at the end of each business day. The Chief Operating Officer is responsible for establishing procedures for valuation of securities where there is no central or established market valuation (*i.e.*, CMOs, non-rated municipal bonds, *etc.*).

6.15.5.2 Trading Limits

SAMCO has established limits on its trading account inventories. In addition to monitoring by the respective trading desk manager, the Accounting Department is responsible for identifying when trading limits are exceeded and reporting to the Chief Financial Officer. Refer to the section(s) *Inventory Positions* in product chapters of this manual for more information on trading limits.

6.15.5.3 Positions Held For the Firm's Investment

The Chief Financial Officer is responsible for monitoring positions owned by SAMCO for its own investment purposes. Purchases for SAMCO's investment account require the prior approval of the Chief Financial Officer.

6.15.5.4 Training

A determination will be made by the committee or supervisor reviewing the new product regarding the need for training before the product is made available for sale. Considerations include:

- Whether RRs are already knowledgeable about the product including pre-existing training
- Sophistication of targeted investors
- Complexity of the product

6.15.6 New Products

[FINRA Notice to Members 05-26]

Responsibility	<ul style="list-style-type: none">• Designated supervisor
Resources	<ul style="list-style-type: none">• New Product Review Checklist• Other information available about the new product
Frequency	<ul style="list-style-type: none">• As required when new products are proposed
Action	<ul style="list-style-type: none">• Conduct a review to:<ul style="list-style-type: none">○ Determine the product is beneficial for customers○ Determine the types of customers that are the target market

	<ul style="list-style-type: none"> ○ Conduct appropriate due diligence about features and risks of the product ○ Determine whether written disclosures or educational information should be provided to potential purchasers ○ Determine what information should be provided to RRs and supervisors, including any additional training • Approve or disapprove the product for distribution
Record	<ul style="list-style-type: none"> • Approved New Product Review Checklists are retained in a file for the product • Other reviewed Checklists are retained in a New Product Review Checklist file

All new products require review and approval prior to offering new products to customers. A "new product" may include a product that:

- is new to the marketplace or SAMCO.
- was previously sold only to a limited segment of SAMCO's customers, such as only to institutional customers and now will be offered to retail customers.
- will be offered by a category of RRs who did not previously offer the product, such as a product new to retail RRs.
- involves material modifications to an existing product including risk, product structure, or fees and costs.
- requires material operational or system changes.
- involves a new or significant change in sales practices.
- raises conflicts that have not been previously identified and addressed.

If there is a question whether a product may be a "new" product, it should be submitted for the new product review.

6.15.6.1 New Product Review Checklist

Individuals and departments wanting to offer new products are required to prepare information for the review by completing the New Product Review Checklist. Information to be provided includes a description of the product, to whom the product would be offered, and economic justification of the product. The requestor will be notified regarding approval/disapproval or the need for modifications or additional information.

6.16 Business Continuity Plan

[FINRA Rule 4370; FINRA Notice to Members 06-74 and 04-37; NASDAQ Rule 3510; SIFMA Business Continuity Planning website: <http://www.sifma.org/Services/Business-Continuity-Planning/>]

SAMCO has developed a Business Continuity Plan to provide procedures for response and recovery in the event of a significant business disruption. The purpose of the Plan is to identify responsible personnel in the event of a disaster; safeguard employees' lives and firm property; evaluate the situation and initiate appropriate action; recover and resume operations to allow continuation of business; provide customers with access to their funds and securities; and protect books and records. The Plan was developed considering the types of business conducted, systems critical to support business, and geographic dispersion of offices and personnel.

6.16.1 Designation Of Responsibilities

The following is a list of those responsible for SAMCO's Business Continuity Plan.

Responsibility	Names or Titles
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Maintain and update Plan	Designated Supervisor
Approve Plan and Plan revisions; conduct annual review	Designated Supervisor
Annual testing of Plan	Designated Supervisor
Implementation of Plan when a disruption occurs	Emergency Response Team
Quarterly review of Emergency Contact Persons and report changes to regulators	FINRA Executive Representative or designee
Maintain and distribute Emergency Contact List	HR and Compliance
Maintain and update Books and Records Chart	HR and Compliance
Provide Plan information to customers: <ul style="list-style-type: none"> • Upon request 	Operations
Post Plan disclosure on SAMCO's web site and update, as required	Compliance
Review critical third party assurances or disaster plans or plan summaries.	Compliance

6.16.2 Retention And Location Of The Plan

Copies of the current and prior versions of the Business Continuity Plan are retained as follows. Copies are dated as of the effective date of the version of the Plan.

- A current hard copy is retained by Compliance with a record of the senior manager's approval.
- An electronic copy is retained on SamPoint.
- Prior versions (including approvals) are retained by Compliance.
- Back-up copies are retained off-site by SAMCO's electronic storage vendor.

6.16.3 Implementation Of The Plan

The Plan has been designed to be implemented in the event of a disaster that results in a significant business disruption. Whether all or only parts of the Plan are implemented depends on the nature of the disruption. Generally, a significant business disruption would include:

- Destruction of one of SAMCO's offices or facilities, whether by natural causes or by other means
- Loss of life or major injuries to personnel in an office location that disables that office's ability to conduct business
- Disruption of service from a critical service provider
- Disruption of service due to wide-ranging regional outages such as a power outage

6.16.4 Emergency Response Team

SAMCO has designated an Emergency Response Team that is responsible for implementing necessary procedures included in this Plan. The Response Team's action will depend on the nature and scope of the disruption. The "first responder" has the primary responsibility for taking action, and the "secondary responder" acts as a back-up in the event the first responder is unable to act. Where feasible, the two responders are located in different office locations.

Action	First Responder/Location	Secondary Responder/Location
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Contact emergency services such as police, fire department	COO	CCO
Establish off-site command center and notify employees	COO	CCO
Contact employees regarding Plan initiatives	COO	CCO
For affected offices, evaluate business disruption and transfer employees and business operations to other locations	COO	CCO
Appoint individuals to manage business areas where needed	COO	CCO
Assess financial and operations capabilities	COO	CCO
Determine financial and credit risk and contact banks and other counter-parties, if necessary, to secure financing to continue operations	COO	CCO
Notify regulators in the event of a capital deficiency	COO	CCO
Interface with SIPC if liquidation of business is initiated	COO	CCO
Contact critical service providers	COO	CCO
Transfer mission critical functions that are disrupted	COO	CCO
Initiate alternative customer communications systems or procedures	COO	CCO
Notify customers regarding alternative access to funds and securities	COO	CCO
Recover back-up records when primary records are destroyed or inaccessible	COO	CCO
Contact regulators and notify them of contact persons and recovery plans	COO	CCO
[insert other actions]	COO	CCO

6.16.5 Emergency Contact List

SAMCO has established an Emergency Contact List that includes the names, phone numbers (cell and land lines), e-mail addresses, and other contact information for individuals critical to SAMCO's business including key employees, key vendors or service providers, regulators, insurance carriers, banks, attorneys, and other key contacts. A copy of the List is provided to each member of the Response Team and other key personnel. This list will be reviewed and updated on at least an annual basis.

6.16.6 Alternative Business Locations

In the event employees can no longer conduct business at one of SAMCO's office locations, the following actions may be taken:

- Transfer employees to the closest unaffected office location and notify personnel
- Transfer critical systems to another office or a back-up firm or system
- Transfer business operations to another SAMCO office unaffected by the disruption
- Transfer business operations to a different broker-dealer or other entity

A list of offices appears in the chapter *DESIGNATION OF SUPERVISORS AND OFFICES* and includes the types of business conducted at each office.

6.16.7 Data Back-Up And Recovery

SAMCO maintains its books and records in both hard copy and electronic format.

In the event of an internal or external significant business disruption that causes the loss of SAMCO's records (whether hard copy or electronic records), back-up records will be recovered from the back-up site.

6.16.7.1 Clearing Firm Back-Up And Recovery

The clearing firm maintains records for SAMCO under the terms of the clearing agreement. The clearing firm has developed a disaster and recovery plan to recover and retrieve records lost in a disaster affecting SAMCO and/or the clearing firm. Records retained by the clearing firm are included on SAMCO's Books and Records chart.

SAMCO has received assurance from the clearing firm that its plan is consistent with SRO rule requirements and provides adequate protection of customer funds and securities held on behalf of SAMCO customers and back-up and recovery systems for records retained by the clearing firm. Compliance (or another person designated to review critical third party plans) will review the clearing firm plan or a summary of the plan at least annually when SAMCO's Plan is reviewed.

6.16.8 Mission Critical Systems

Mission critical systems are systems that are necessary to ensure prompt and accurate processing of securities transactions including order taking, entry, execution, comparison, allocation, clearance and settlement, maintaining customer accounts, and providing access to customer funds and securities.

6.16.9 Financial And Operational Assessments

The following describes procedures for assessing changes in operational, financial, and credit risk exposures in the event of a significant business disruption.

6.16.9.1 Operational Risk

In the event of a significant business disruption, alternative systems will be implemented to communicate with customers, employees, critical business constituents (banks, counter-parties, *etc.*), regulators, and other key parties depending on the nature and impact of the disruption. Communication systems are described in the section *Alternative Communications*.

6.16.9.2 Financial And Credit Risk

In the event of a significant business disruption, SAMCO's financial status will be evaluated to determine the need for additional financing or identify capital deficiencies including the following:

- Review the impact of the disruption on SAMCO's ability to conduct business
- Identify inability to satisfy obligations with counter-parties
- Contact banks or other counter-parties to secure needed additional financing
- Notify regulators of capital deficiencies
- Reduce or cease business as may be required due to capital deficiencies or inability to conduct business
- Transfer business to other financial institutions until SAMCO may resume conducting business

6.16.10 Alternative Communications

SAMCO may use a wide range of communication systems to communicate with its customers, employees, counter-parties, and regulators including telephone; mail; fax; e-mail; vendor systems (such as Bloomberg); and personal meetings. Procedures for instituting alternative communications in the event of a significant business disruption include the following, depending on the nature of the disruption:

- Identify the most expedient remaining means of communication
- Notify employees if an off-site command center has been activated
- Notify employees of alternative communication systems to be used
- Transfer communications to another firm

Determination of what communication system will be used depends on the nature of the disruption and which communication systems (electronic mail, telephone calls, *etc.*) are functional and the availability of personnel in the event telephone contact is necessary.

6.16.10.1 Between Customers And The Firm

In the event of a significant business disruption that disables communications systems, alternative system procedures will be implemented, including the following:

- Identify the most expedient remaining means of communication
- Notify employees regarding how to contact customers
- Contact customers about how to enter orders, how to access accounts and account assets, and other alternative business operations

6.16.10.2 Between The Firm And Its Employees

In addition to the above, SAMCO has developed a system to enable senior management to contact employees in the event of an emergency. The system may include, depending on geographic dispersion of employees:

- Contact lists maintained by managers at branch offices
- "Call trees" that provide contact initiated at senior management level and pyramiding down to reach affected personnel
- A central list of all personnel and their contact information

6.16.10.3 Between The Firm And Regulators

Communications with regulators will be conducted using the most expedient available communication system. The designated Response Team person will contact regulators regarding any major business disruption and plans for continuing business.

6.16.11 Regulatory Reporting

In the event of a significant business disruption affecting offices responsible for regulatory reporting, regulators will be contacted to determine which means of filing are available under the circumstances to meet filing requirements. In the event SAMCO cannot contact regulators, required reports will be filed using communications means available.

6.16.12 Business Constituent, Bank, And Counter-Party Impact

This section describes business continuity procedures regarding third parties that are critical to the conduct of SAMCO's business. In most instances, contracts with critical third parties will include assurances regarding the third party's disaster recovery plans. A disruption impacting SAMCO's ability to conduct business may occur either at SAMCO itself or at the third party.

The Business Constituent, Bank, And Counter-Party chart (Appendix C to the Plan) identifies key parties and potential alternatives in the event of a disruption.

6.16.12.1 Business Constituents

- Determine whether the third party is able to continue providing critical services.
- If not, identify and contact an alternate third party to provide services.

6.16.12.2 Banks And Other Financial Institutions

- Determine whether the bank/financial institution is able to continue providing financing.
- If not, identify and secure alternative financing.

6.16.12.3 Critical Counter-Parties

- Determine whether transactions may be completed with counter-parties.
- If not, contact counter-parties directly (or SAMCO's clearing firm, if business is introduced) to make alternative arrangements to complete transactions.

6.16.13 Other Obligations To Customers

6.16.13.1 Accepting Customer Orders

In the event SAMCO's systems for accepting customer orders are disrupted, alternative systems will be communicated to customers and to employees including, where appropriate:

- Accepting orders by telephone or other alternative means
- Communicating orders to trading desks (internal or external) or order execution systems by telephone or other alternative means

6.16.13.2 Prompt Access To Funds And Securities

When customer access to funds and securities is impacted by a significant business disruption, customers will be notified by whatever expedient means is available (telephone, e-mail, *etc.*) regarding who may be contacted to request funds or securities. If SAMCO is unable to continue business operations, customers will be notified of an alternative financial institution where they may conduct business and access their funds and securities.

6.16.13.2.1 SIPC Liquidation

In the event SIPC liquidation of SAMCO's business is required, designated personnel will work with the SIPC-appointed trustee to wind down SAMCO's operations and transfer customer funds and securities.

6.16.13.3 Disclosure Of Business Continuity Plan

[FINRA Rule 4370(e)]

Information about SAMCO's Business Continuity Plan is provided to customers as follows:

- At the time of account opening
- On SAMCO's web site
- Upon request, by mail

6.16.14 Emergency Contact Information

[NASD Rule 1160; FINRA Rule 4370]

SAMCO has provided FINRA with the names of two emergency contact persons, one who must be a registered principal and member of senior management and a second who may be unregistered (such as SAMCO's attorney, accountant, or a clearing firm contact) and who has knowledge of SAMCO's business.

Emergency contact information will be promptly updated, when necessary. Contact information will be reviewed by Compliance (or someone else designated) within 17 business days of the end of each calendar year and a written record of the review will be retained.

6.16.15 Widespread Health Emergencies

[Federal government Business Pandemic Influenza Planning Checklist:
<http://www.pandemicflu.gov/plan/pdf/businesschecklist.pdf>]

A widespread pandemic or any biologically based threat could have significant impact on the ability of SAMCO to continue conducting business. This section outlines the steps SAMCO has taken and will take in the event of a widespread pandemic.

6.16.15.1 Preparatory Steps

- Document government resources for information about a pending pandemic
- Identify and document an alternative firm or firms to handle SAMCO's business for extended periods of time
- Identify and document medical resources to assist employees, including administering vaccinations or other medications
- Stock antibacterial and other hygiene products for use by employees
- Identify employees that can telecommute and establish a list of those employees and what computers and technology will be necessary

6.16.15.2 Action If A Pandemic Occurs

The following procedures will be followed in the event of a threatened health emergency.

1. The Emergency Response Team will meet to determine the potential seriousness of the threat and what action to be taken as the threat escalates.
2. Notify employees of:
 - available vaccinations or other medication and whether they are mandated
 - necessary conduct such as avoiding personal contact such as handshaking
 - access to antibacterial or other hygiene products to reduce infections and transmission of communicable diseases
 - requirement to stay home and telecommute
 - transfer of business/functions to other firms
 - contact list of key personnel
3. Restrict access to SAMCO by outsiders (customers, vendors, *etc.*).
4. The Emergency Response Team will meet or communicate regularly to determine steps to be taken.

6.16.16 Education Of Employees

The Business Continuity Plan is communicated to employees as follows:

- A summary is included in the chapter *GENERAL EMPLOYEE POLICIES* in the section *Emergency Business Recovery Procedures* and is provided to all employees.
- A current copy of the Plan is provided to the Emergency Response Team and key employees with responsibilities for aspects of the Plan.
- The most recent Emergency Contact List is provided to key employees.

6.16.17 Updating, Annual Review, And Testing

The Plan will be reviewed on at least an annual basis and revised as needed. Each revision will be approved by the designated senior manager and copies of the revised Plan distributed to the Emergency Response Team and key employees. Some material events require updating the Plan when they occur, including:

- Material changes to SAMCO's business

- A change in SAMCO's main office location
- Added office locations
- A change in a major service provider

When the Plan is reviewed, the procedures and accompanying lists and charts will be reviewed and updated as needed including the:

- Plan itself
- Emergency Response Team list
- Emergency Contact List
- Books and Records chart (Appendix A)
- Mission Critical Systems chart (Appendix B)
- Business Constituent, Bank, and Counter-Party chart (Appendix C)
- *Designation Of Offices* section of the chapter *DESIGNATION OF SUPERVISORS AND OFFICES*
- Any other charts or information related to the Plan

A written record of the annual review including the date reviewed and name and signature of the reviewer will be retained by Compliance.

6.17 Customer Payments For Purchases

When an order to purchase securities is accepted from a customer, payment from the customer's bank account or other depository must be authorized in writing by the customer. Payment is not acceptable based only on the customer's oral authorization to withdraw funds. Examples of acceptable payment include:

- a check signed by the customer
- written authorization by the customer to draft funds from the customer's bank checking or savings account

Questions regarding proper payments should be referred to Operations or Compliance.

6.17.1 Checks Payable To Clearing Firm

All checks provided by customers must be made payable to SAMCO or SAMCO's clearing firm only. While SAMCO may accept checks made payable to SAMCO, it is SAMCO's policy to instruct customers to make checks payable to SAMCO's clearing firm. Questions regarding check requirements should be referred to Operations.

6.17.2 Guaranteed Accounts

A customer (the "guarantor") may provide a written guarantee to cover the margin calls in another account (the "guaranteed" account) using the equity in the guarantor's account. Written agreements for such guarantees must be provided to Operations.

RRs are prohibited from guaranteeing payment in another customer's account (unless the other customer is an employee-related account and approval has been obtained from Operations).

6.18 Transmittals Of Customer Funds And Securities

[NASD Rule 3012(a)(2)(B); FINRA Rule 4514; FINRA Regulatory Alert 09-64]

This section describes SAMCO's procedures for transmitting funds or securities from customer accounts. The following summarizes requirements:

- [requirements]

6.18.1 Prepayments And Extensions

Prepayments (customer requests payment prior to settlement date on a sale) or extensions of time to make payment must be approved by the designated supervisor.

6.18.2 Employees Authorized To Transmit Customer Assets From Accounts

Employees who are authorized to release customer funds and/or securities include:

- Authorized Operations personnel
- RRs authorized under the *Transmittals Between Customers And Registered Representatives* policy below

6.18.3 Issuing Checks To Customers

Checks to be paid to customers from their accounts will be paid to the order of the account as it is carried on SAMCO's books and sent to the address appearing on the account. Exceptions require written authorization by the customer. When checks are to be issued to a third party or funds are transferred to a third party, the following procedures apply.

6.18.4 Persons Receiving Assets In Person

When someone appears in person to receive assets, a photo ID will be required before the assets are released. The person releasing assets is required to note on SAMCO's records the type of ID presented and the number (driver's license, passport, *etc.*). If an authorized third party under an LOA is receiving assets, the LOA will be verified before assets are released.

6.18.5 Transmittals To Third Parties

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Requests to send funds/issue checks to third parties
Frequency	<ul style="list-style-type: none">• As required - issue transmittals to third parties and send notification to the customer• Annual - review transmittal procedures• Annual - confirm standing LOAs• As scheduled - review branch/office procedures• Annual (or more frequently, as necessary) - provide training to employees
Action	<ul style="list-style-type: none">• Obtain required LOA• Issue check/funds in accordance with procedures• Send notification to the customer that funds (or securities) have been sent to a third party• Confirm standing LOAs still apply• Annually review transmittal procedures in the annual review of supervisory systems and controls (Compliance or other reviewer)• Review transmittals in branch/office audits including sampling of LOAs and transmittals (Compliance or other reviewer)• Include in employee training transmittal procedures in continuing education or other employee training
Record	<ul style="list-style-type: none">• LOAs (in Operations and/or clearing firm's files)• Record of annual confirmation of standing LOAs• Records of annual reviews are retained with the annual review of supervisory systems and controls

	<ul style="list-style-type: none"> Records of employee training
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When a customer wishes funds or securities to be paid to a third party in the third party's name, the customer will be required to provide a signed LOA that specifies to whom the funds are to be paid.

When funds are disbursed, SAMCO (or its clearing firm) will send a notice to the customer confirming that funds were sent to a third party from the customer's account.

6.18.5.1 Letters Of Authorization

A Letter of Authorization (LOA) is an important required document whenever a customer asks that funds or securities are to be sent to a third party out of the customer's account. LOAs are an important record for SAMCO, both to ensure the customer's instructions are followed and to ensure SAMCO has a written record in the event there is a question in the future about disbursements from an account.

6.18.5.1.1 LOA Instructions

RRs or their assistants are responsible for obtaining completed LOAs, when necessary.

- A completed LOA is required **prior to** disbursements to third parties.
- All blanks must be completed on the LOA.
- The customer's original signature is required. In the case of a joint account, all joint owners must sign the LOA. For corporations, trust accounts, and other accounts, the authorized person must sign the LOA.
- Completed LOAs are submitted to Operations and should accompany the request to disburse funds or send securities to a third party.

6.18.5.2 Email Instructions

[FINRA Regulatory Notice 12-05]

Email and other electronic communications can be subject to intrusion and compromised by a third party. There have been instances of third parties sending fraudulent requests to broker-dealers to transfer customer funds to an account for the benefit of the third party. To prevent theft from customer accounts, the following apply to email or other electronic requests to transfer funds to a third party:

- The customer will be contacted by phone, mail, or another means independent of the email account to verify the accuracy of the instructions.
- The RR, assistant, or operations person receiving instructions should be aware of "red flags" (e.g., funds to be transferred to an unfamiliar third party, particularly in a foreign country; transfers that appear to be out of the ordinary for the customer; and requests that indicate urgency or otherwise appear designed to deter verification of transfer instructions).
- If SAMCO processes its transactions through a clearing firm, the clearing firm will have its own procedures to prevent unauthorized third party transmittals.
- The Operations Manager or Compliance should be contacted with any questions about questionable transfer instructions.

6.18.6 Authorization Records For Negotiable Instruments Drawn From A Customer's Account

[FINRA Rule 4514]

The customer's written signature is required whenever SAMCO obtains or submits for payment a check, draft, or other form of negotiable paper drawn on a customer's checking, savings, share or similar account; this may include the customer's signature on the negotiable instrument. Written authorization separate from the instrument must be retained for 3 years following the date the authorization expires. No record is required when the customer signs the instrument (*i.e.*, a check).

6.18.7 Transmittals To An Alternate Address

Funds and securities will be sent to the customer's address of record, unless the customer provides **written** authorization to use an alternative address.

6.18.8 Transmittals To Outside Entities

Customers sometimes request the transfer of funds or securities in their accounts to a bank or other entity on their behalf. A signed LOA must be obtained to effect such a transfer including the customer's account number at the receiving bank or other entity.

Transmittals Between Customers And Registered Representatives

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Requests to deliver checks• Check Delivery Log
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Approve (or disapprove) the request to deliver a check
Record	<ul style="list-style-type: none">• Initials on Check Delivery Log

On occasion, a customer may request that the RR or other SAMCO employee personally deliver a check to the customer. This is permitted under the following conditions:

- The designated supervisor must approve the check delivery. The designated supervisor should initial a record maintained by Operations.

6.18.9 Suspicious Or Questionable Activities

Employees are responsible for referring suspicious or questionable activities to their designated supervisor. If the activity involves the designated supervisor, the employee should bring the activity to the attention of the Compliance Officer. If the Compliance Officer is involved, the activity should be brought to the attention of someone else in senior management. Such activities may include transfers without required authorizations; failure to obtain secondary approvals where required; a pattern of transfers that have no reasonable business basis, or any other activity the employee considers suspicious.

6.19 Safekeeping Of Customer Funds And Securities

[SEC Securities Exchange Act of 1934 Rule 8c-1, Rule 15c2-1, Rule 15c3-3 and Rule 17a-13; NASD Rule 2330 and 3140; NASD Notice to Members 99-44]

6.19.1 Introduction

SEC Rule 15c3-3 specifies requirements for broker-dealers to properly protect customers' funds and securities. These rules include segregation of certain funds and securities. Broker-dealers that self-clear are responsible for complying with these rules. Broker-dealers that do not hold customer funds and securities may qualify for exemptive provisions of the Rule. Two significant elements of the Rule are:

1. a formula for a cash reserve which restricts a broker-dealer from using customer funds and securities in their own business; and,

2. a requirement that brokers or dealers maintain and obtain physical possession or control, as defined in the Rule, of fully paid and excess margin securities.

6.19.2 Exemption From 15c3-3

Because of the nature of SAMCO's business, SAMCO qualifies for an exemption under Rule 15c3-3(k). The FINOP is responsible for determining that SAMCO qualifies for one of the two following exemptions.

6.19.2.1 Exemption Under (k)(2)(i)

[SEC Securities Exchange Act of 1934 Rule 15c3-3(k)(2)(i)]

SAMCO carries no margin accounts and promptly transmits customer funds and securities to its clearing firm. SAMCO does not hold funds or securities from, or owe money or securities to, customers and effects all financial transactions between SAMCO and its customers through one or more bank accounts, each designated as "Special Account for the Exclusive Benefit of Customers of the Firm."

6.19.2.2 Exemption Under (k)(2)(ii)

[SEC Securities Exchange Act of 1934 Rule 15c3-3(k)(2)(ii)]

SAMCO clears all transactions with and for customers on a fully disclosed basis with its clearing firm which carries all of SAMCO's customer accounts and maintains books and records related to carrying the accounts. SAMCO promptly transmits customer funds or securities to its clearing firm.

6.19.2.3 Inadvertent Receipt Of Customer Funds Or Securities

SAMCO does not hold funds or securities for, or owe money or securities to, its customers. In the event that funds or securities are inadvertently received by SAMCO, an entry will be made in a log maintained for that purpose recording the date, the amount, and, in the case of securities, a description of the securities received, and the action taken to return such funds or securities to their rightful owner.

No later than the next business day, SAMCO will return the funds or securities to the sender. If the sender cannot be immediately determined, SAMCO will open a separate bank account, to be designated as "Special Account for the Exclusive Benefit of the Owner of Funds and Securities," into which the funds or securities will be deposited and held until the rightful owner has been identified.

6.20 Customer Confirmations And Statements

[FINRA Rule 2230]

6.20.1 Customer Statements Only Are Provided To Customers

[FINRA Regulatory Notice 10-19]

RRs are not permitted to create supplemental customer statements or reports for the purpose of consolidating investments not shown on customer monthly statements issued by SAMCO. The customer monthly statement provided by SAMCO is the only record to be provided to customers.

6.20.2 Control Of Blank Confirmations And Statements

Blank confirmations and statements are to be retained in a secured location. Only authorized employees are permitted access to blank documents. The FINOP will establish procedures for control of these documents.

6.20.3 Change Of Customer Addresses On Accounts

[FINRA Rule 3012(a)(2)(B)]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Request to change address on account from customer or RR
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Change address• Send a confirming letter to the customer's old address, notifying that the address has been changed on the account
Record	<ul style="list-style-type: none">• Copies of confirming letters are retained by Operations

When a customer requests a change of address, a notification confirming the change of address will be sent to the customer's old address. Customer inquiries responding to the change of address notification will be forwarded to Compliance for follow-up.

6.20.4 Hold Mail Instructions

[NASD Rule 3110(i)]

Any requests received from customers to hold their mail should be referred to Compliance for review. Such requests should be in writing. A customer who will be away from his or her usual address and on vacation or traveling in the U.S. may have mail held for no more than two months or three months if the customer is going abroad.

Customers should be encouraged to make alternative arrangements for mail to be forwarded to a third party on their behalf. All mail held by SAMCO will be held by Compliance.

6.20.5 Confirmation Disclosures

[SEC Securities Exchange Act of 1934 Rule 10b-10; FINRA Rule 2232]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Trade data
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Establish operations procedures for necessary disclosures in addition to standard information (required by SEC Rule 10b-10 and FINRA Rule 2232) included on confirmations
Record	<ul style="list-style-type: none">• Copies of confirmations

The designated supervisor is responsible for establishing procedures to include special required disclosures on customer confirmations. Examples of some types of special disclosures are explained in the following sections.

6.20.5.1 Non-Rated Taxable Debt Securities

Confirmations for a taxable-debt security (other than a U.S. Government security) will disclose that the security is not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). The disclosure is based upon electronic data feeds that are linked to SAMCO's system for generating confirmations from at least two NRSROs that SAMCO reasonably believes provide rating information for at least 80% of outstanding rated taxable-debt securities.

The confirmation will include a statement that rating information is based upon good faith inquiry of selected sources.

6.20.5.2 Disclosure Of Control Relationship With Issuer

[FINRA Rule 2262]

Whenever SAMCO effects transactions in the securities of an issuer that controls or is under common control with SAMCO, a disclosure regarding the common control will be included on or with the confirmation.

6.20.5.3 Callable Common Stock

Confirmations for transactions in callable common stock will disclose that:

- the security is a callable equity security; and
- the customer may contact SAMCO for more information regarding the security.

6.20.5.4 Special Disclosures For Principal Transactions

Confirmations for transactions in reported securities where SAMCO acts as principal will disclose the reported trade price, the net price to the customer, and the difference between the reported price and the price to the customer (*i.e.*, the markup/markdown or similar remuneration). Reported securities include:

- NASDAQ Global Market (NGM) securities
- NASDAQ Capital Market securities
- All NYSE, AMEX and selected securities on regional exchanges and reported to the Consolidated Tape

Also included in this requirement are riskless principal transactions in reported securities where SAMCO acts as market maker in the security. Where SAMCO is not a market maker, the confirmation must disclose the net price to the customer and the markup/markdown and similar remuneration.

6.20.5.5 Transactions In Municipal Securities

MSRB Rule G-15 specifies a number of disclosure requirements depending on the type and nature of the transaction. Some types of disclosure included in the Rule are call features, primary revenue source for revenue bonds, securities sold as "original issue discount" (OID) bonds, and yield information. The Rule should be consulted for detailed information.

The designated supervisor is responsible for establishing operations procedures for identifying municipal transactions that require added disclosures.

6.20.6 Confirmation Disclosure Of Non-Rated Taxable Debt Securities

The designated supervisor is responsible for establishing procedures to disclose on confirmations for a taxable-debt security (other than a U.S. Government security) that the security is not rated by a Nationally Recognized Statistical Rating Organization (NRSRO). The disclosure is based upon

electronic data feeds that are linked to the Firm's system for generating confirmations from at least two NRSROs that SAMCO reasonably believes provide rating information for at least 80% of outstanding rated taxable-debt securities.

The confirmation will include a statement that rating information is based upon good faith inquiry of selected sources.

6.21 Subordination Agreements With Investors

[SEC Securities Exchange Act of 1934 Appendix D to Rule 15c3-1; FINRA Notice to Members 02-32 and 02-04; FINRA web site: <http://www.finra.org/Industry/Compliance/RegulatoryFilings/subordinations/index.htm>]

If SAMCO enters into a subordination agreement with an investor, it will provide the investor with a copy of FINRA Subordination Agreement Investor Disclosure Document and obtain the investor's signature on a copy of the Document. A copy of the signed Disclosure Document will be submitted to FINRA with the subordination agreement, for approval.

The FINOP is responsible for obtaining and submitting the required documents for subordination agreements.

6.22 Expense-Sharing Agreements

[SEC Letter July 11, 2003 to FINRA and NYSE Regarding Recording Certain Broker-Dealer Expenses And Liabilities; FINRA Notice to Members 03-63]

The SEC specifies requirements for incorporating an expense-sharing agreement into a broker-dealer's operations and how these agreements are recorded in the broker-dealer's financial records. The FINOP is responsible for ensuring SAMCO complies with the SEC's guidelines if it enters into any such agreements.

In addition, the FINOP is responsible for notifying SAMCO's Designated Examining Authority (DEA) if it enters into an expense-sharing agreement and does not record each of the expenses it incurs relating to its business on the reports it is required to file with the SEC or with the DEA. The notice will include the date of the agreement and the names of the parties to the agreement; a copy of the agreement will be provided to the DEA upon request.

6.23 Electronic Delivery And Signatures

[Electronic Records and Signatures in Global and National Commerce Act; SEC Release No. 34-42728; SEC Interpretive Release No. 33-7233, 33-7856 and 33-36345; NASD Notice to Members 98-3; NASD Regulatory and Compliance Alert March 1998; SIA Legal Alert 00-12]

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

6.23.1 Electronic Delivery To Customers

[SEC Release No. 34-42728]

If SAMCO electronically transmits documents to customers and/or accepts electronic signatures from customers, the following requirements will apply:

- The customer's consent will be obtained.
- Notice will be provided to customers that the information is available electronically.

- Customers who are provided electronic delivery have access to the information substantially equivalent to the access that would be provided if the information were delivered in paper form (*i.e.*, the electronically transmitted document will convey all material and required information). Customers will have ready access to the electronic document either through downloading or ongoing access online.
- SAMCO will evidence satisfactory delivery through the customer's informed consent agreeing to delivery of certain documents or obtaining actual confirmation the customer received the information.
- Electronic delivery is subject to SAMCO's policies and procedures to protect confidential customer information and ongoing review of SAMCO's security systems.

6.23.2 Electronic Signatures

[SEC Release No. 34-42728]

Electronic signatures may be used by designated supervisors to indicate approval/review of new accounts, orders, and other ongoing supervisory reviews. Supervisors will be assigned passwords which will be changed periodically to protect the security of the system.

6.23.3 FINRA Access

[SEC Release No. 34-42728]

As required by FINRA, FINRA and its staff will have access to downloading and printing of documents which will have appropriate references and cross-references for ready access. If batch process approval is used (as opposed to opening individual files for review/approval), the batch process will:

- Give regulators immediate access to required books and records
- Permit the examining staff to download and print hard copies of required books and records
- Be subject to SAMCO's policies and procedures regarding protection of customer information
- Be accessible only to authorized principals with password-based security access

Only authorized personnel will have access to the e-signature system which is password protected with periodic updating of passwords. Any branch offices that access the e-signature system will be provided SAMCO's policy on safeguarding electronic signatures.

As part of SAMCO's annual review of its systems and procedures, the use of electronic signatures will be reviewed to ensure SAMCO is meeting recordkeeping requirements.

6.24 Transfer Of Accounts

For accounts introduced to a clearing firm, the clearing firm is responsible for timely transfer. For accounts held by SAMCO where SAMCO self-clears, the FINOP will establish procedures in the Firm's operations manual for the timely transfer of customer accounts to another broker-dealer.

6.25 Solicitation Of Proxies

[SEC Securities Exchange Act of 1934 Section 14]

RRs are not permitted to solicit proxies from customers. Federal securities rules prohibit solicitation of proxies except in very limited situations. Questions should be referred to Compliance.

6.26 Customer Requests For References

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests from customers or prospective customers for reference

	letters
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Review requests and determine what, if any, reference letter may be issued If appropriate, write reference letter with a copy to the RR
Record	<ul style="list-style-type: none"> Letters retained by Compliance

Customers or prospective customers sometimes request letters of reference from broker-dealers regarding their accounts or future business to be done. Some of these requests in the past have been scams by unscrupulous individuals seeking to capitalize on a broker-dealer's good name. Any such requests should be referred to Compliance for handling.

6.27 Audit Letters

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Letters from auditors requesting verification of balances in customer accounts
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Forward requests to Operations for response
Record	<ul style="list-style-type: none"> Operations will maintain copies of responses in customer account files

Auditors sometimes send letters asking SAMCO to verify funds and securities on behalf of their customers who also have accounts with SAMCO.

All requests should be forwarded to the manager of Operations for response. In no instance should an RR or other branch personnel respond to these requests.

6.28 Annual Disclosure Of FINRA BrokerCheck

[FINRA Rule 2267]

As required by FINRA rule, at least annually customers will be provided with the following information in writing about FINRA BrokerCheck (formerly known as FINRA Public Disclosure Program):

- the hotline number
- the Web Site address
- a statement regarding the availability of an investor brochure regarding FINRA BrokerCheck

6.29 Carrying Agreements

[FINRA Rule 4311; NASDAQ Rule 3230; FINRA web site: <http://www.finra.org/Industry/Compliance/RegulatoryFilings/FCA/>]

SAMCO introduces its accounts and customer transactions to its carrying firm. SAMCO has executed a carrying agreement consistent with regulators' requirements and will amend its carrying agreement

when necessary. Any new carrying agreement or amendment will be submitted to its designated SRO for review and approval. A carrying agreement where accounts are carried on a fully disclosed basis will include the responsibilities of each party to the agreement as required by rule. Accounts introduced on a fully disclosed basis will be notified in writing at the opening of the account of the existence of the carrying agreement and the responsibilities allocated to the respective parties.

If SAMCO has an agreement to act as an intermediary for another introducing firm ("piggybacking" arrangement), it will notify the carrying firm of the existence of the arrangement with the other introducing firm and disclose the identity of the firm. The carrying agreement will identify and bind every direct and indirect recipient of clearing services as a party to the agreement.

The FINOP is responsible for executing required carrying agreements; providing required notices; and retaining records.

6.30 Clearing Firm Exception Reports

[NASD Rule 3230(c)(3); FINRA web site:

<http://www.finra.org/Industry/Compliance/RegulatoryFilings/ClearingNotifications/index.htm>; NYSE Rule 382]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Clearing firm lists of reports available and currently received
Frequency	<ul style="list-style-type: none"> Annually, at or around July 31 of each year
Action	<ul style="list-style-type: none"> Review list of reports available from clearing firm and adjust list of reports received, if appropriate
Record	<ul style="list-style-type: none"> Notice from the clearing firm and request for change to reports received are retained in a file for clearing firm exception reports.

In compliance with SRO rules, SAMCO's clearing firm is required to provide annual notice, by July 31 of each year, as follows:

- Notice to SAMCO of:
 - exception reports available, and,
 - exception reports currently supplied to SAMCO.
- A copy of this notice is forwarded to SAMCO's designated examining authority or other appropriate regulator by the clearing firm.

When the list of available reports is received, Compliance will review the list and contact the clearing firm regarding changes to the list of reports currently received.

6.31 Short Interest Report

[FINRA Rule 4560; FINRA Regulatory Notice 12-38]

SAMCO's clearing firm is responsible for filing required short interest reports.

6.32 Electronic Blue Sheets

[SEC Securities Exchange Act of 1934 Rule 17a-25; FINRA Notice to Members 06-33 and 05-58]

Regulators may request information regarding customer or SAMCO transactions as part of their ongoing market surveillance activities. Information is transmitted electronically through FINRA's Regulatory Filings Application (RFA) Platform or the NYSE's Datatrak platform.

The FINOP is responsible for designating a person responsible for filing responses and retaining records of responses (or promptly forwarding requests to SAMCO's clearing firm and retaining a record of forwarding).

6.33 Regulatory Fees And Assessments

[SEC Securities Exchange Act of 1934 Section 31; FINRA By-Laws Schedule A; FINRA Notice to Members 05-11 and 04-63]

The FINOP is responsible for paying fees and assessments required by regulators. A record of information reported and fees or assessments paid are retained in the FINOP's files.

6.34 Regulatory Requests

[FINRA Rule 8210]

Responses to regulatory requests may only be provided by authorized employees or departments such as Operations or Compliance. Requests received by employees other than those authorized must be referred to Compliance.

6.34.1 Information Provided Via Portable Media Device

[FINRA Regulatory Notice 10-59]

Information provided to FINRA by portable media device in response to requests under FINRA 8210 (Provision of Information and Testimony and Inspection and Copying of Books) will be encrypted using a method that meets industry standards for strong encryption. FINRA staff will be provided with the confidential process or key regarding the encryption in a communication separate from the encrypted information itself (separate email, fax, letter, *etc.*).

The Compliance, Legal, or other authorized person providing the requesting information is responsible for ensuring that the information is encrypted when a portable media device is used for transmission of the information.

6.34.2 INSITE Reporting Requirements

[FINRA Rule 3150]

FINRA Rule 3150 ("Reporting Requirements for Clearing Firms") requires firms that self-clear or clear for others to report data which will be used by FINRA in its surveillance program. INSITE (Integrated National Surveillance and Information Technology Enhancements) is FINRA's program for identifying emerging risk patterns at members firms for follow-up reviews or examinations.

Operations is responsible for providing the required data and retaining records of information provided.

6.35 Outsourcing

[FINRA Notice to Members 05-48]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Third party vendors

	<ul style="list-style-type: none"> • Reviews of vendor performance • Customer complaints
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Identify areas of SAMCO's business where outsourcing is appropriate • Identify third party vendors that provide the needed services • Evaluate potential third parties and determine whether to engage using the Outsourcing Review Worksheet • Execute contract • Establish procedures to determine periodically that outsourced services are fulfilling SAMCO's requirements and complying with applicable rules • When problems with outsourced services are identified through customer complaints, monitoring of services, or from the vendor itself: <ul style="list-style-type: none"> ○ Review the problem to determine whether the source is the vendor or is internal ○ Take corrective action which may include the following: <ul style="list-style-type: none"> ▪ Contact the vendor and determine what corrective action will be taken and follow-up to determine corrective action has been taken ▪ If the problem continues or is significant, determine whether vendor should be replaced ▪ If the problem is internal, contact the appropriate supervisor to determine corrective action ○ Consult with Compliance when necessary to determine action to be taken
Record	<ul style="list-style-type: none"> • Outsourcing Review Worksheet • Contracts with third parties • Records of third party vendor reviews • Records of corrective action taken

Some services may be outsourced to third parties (vendors). While third parties are responsible for providing agreed-upon services in an accurate manner, regulators have stated that firms remain responsible for ultimate compliance with rules governing the outsourced activity.

When choosing an outside vendor, a number of factors will be considered depending on the type of service provided. Factors that may be considered when engaging a third party include:

- Length of time in business
- Financial stability
- Prior knowledge of the vendor
- Other users of the vendor's services
- Technology and ability to deliver services
- Security of customer or other financial information, if applicable
- Who at SAMCO is responsible for monitoring the vendor's services

An Outsourcing Review Worksheet will be completed when a new vendor is considered.

6.36 Protection Of Firm And Customer Systems And Data

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance - Actions involving compromised accounts
Resources	<ul style="list-style-type: none"> • Internal and outside security systems • Computers, phones, PDAs, other data-retaining devices • Customer and Firm data
Frequency	<ul style="list-style-type: none"> • Clearing of data from devices: when device is to be retired or re-assigned • Ongoing - review of integrity of systems • Ongoing - assigning and disabling passwords • Annual - review of internal controls and procedures • As required - when intrusions are detected • Annual - provide training to personnel regarding use of systems
Action	<ul style="list-style-type: none"> • Clear data from retired or re-assigned devices (internally or using an outside service) • Establish controls including firewalls and encryption of data • Require installation of security application software to all laptops or other remote devices used to access firm and customer data • When system intrusions are detected, follow protocol for compromised data • Conduct due diligence/obtain affirmation from third parties with access to firm data • Issue passwords to authorized personnel; disable them when an authorized person terminates or transfers from an authorized position, including shared user names and passwords when one of the users terminates or is no longer an authorized person • Include periodic changes to passwords • Provide training to personnel (may be part of annual compliance or other meetings or may be written instructions provided periodically) • Test systems regularly and correct anomalies • Conduct review of internal controls and procedures (Compliance or other assigned personnel)
Record	<ul style="list-style-type: none"> • Record of clearing data from retired or re-assigned devices • Record of due diligence/affirmation from third parties • Record of passwords issued and disabled including names of authorized persons, their departments, date issued or disabled • Record of training provided • Record of compromised data and actions taken • Record of annual review (Compliance or other)

SAMCO's designated supervisor (*i.e.*, chief financial officer, chief information officer) is responsible for developing and implementing procedures to protect SAMCO's internal systems and data.

6.36.1 Protection Of Customer Information And Records

SAMCO has adopted procedures to protect customer information, including the following:

- [methods]

6.36.1.1 Social Security Numbers (SSNs)

SSNs are part of the information subject to protection of customer records. SSNs are obtained when accounts are opened, as required by federal law. SSNs are retained with account records and used for federally-required year-end reporting of transactions and/or income. Access is limited to authorized employees (operations personnel, RRs, managers, etc.) and are provided to outsiders only when required by law or court/arbitration action or other authorized authority.

6.36.1.2 Access To Customer Information Via Wi-Fi

Because of risk of unauthorized access by outside parties and the difficulty of ensuring the security of wireless connections to the Internet, employees are not permitted to use wireless fidelity (Wi-Fi) to access customer account information, unless:

- the employee is working on Firm premises; or
- the employee has installed Firm-required firewalls or other protections and has prior approval from SAMCO's designated information officer to use Wi-Fi for Firm business.

6.36.1.3 Remote Access To Customer Accounts

Some employees may be authorized to work at home or while traveling during which time SAMCO's network will be accessed. Authorization must be requested from the designated information officer who will assign passwords and retain a record of authorized employees. Firewalls and other protections are in place to prevent intrusion by outsiders and breaches of confidentiality.

6.36.1.4 Disposal Of Consumer Report And Customer Information And Records

[SEC Regulation S-P Rule 30(b); SEC Release No. 34-50781; Fair and Accurate Credit Transactions Act of 2003 Section 216]

Consumer report and customer information and records will be disposed of in a manner to prevent unauthorized access or use.

6.36.1.4.1 Third Party Service Provider

SAMCO has engaged a third party to provide disposal services and will notify the third party when consumer report or customer information is being provided for disposal in accordance with acceptable disposal procedures. The designated supervisor will:

- identify a qualified third party service provider;
- contract with the service provider for agreed-upon disposal services; and
- include in the contract agreement a method for notifying the third party when consumer report information is being provided for disposal, to enable compliance with acceptable disposal procedures.

6.36.2 Control Of Access

Authorized personnel are issued passwords to access systems and records; these passwords are periodically changed. Passwords are disabled when an employee terminates or is no longer an authorized person.

6.36.3 Encryption Of Data

Data regarding private customer information transmitted to laptops or remote devices will be encrypted. Such data stored on laptops and other remote devices will also be encrypted.

6.36.4 Retirement Of Equipment Containing Data

Computers or other data-retaining equipment that will be disposed of will be subject to clearing of hard drives and other repositories of data prior to disposal. If a computer will be re-assigned to someone who is not authorized to view data stored on that computer, the hard drive will be cleared prior to reassignment. Flash drives and other portable data devices that will no longer be used or will be reassigned will be destroyed or cleared of all data prior to disposal or re-use.

6.36.5 Compromised Accounts

If SAMCO identifies unauthorized access to customer accounts, Compliance will be immediately notified and the following actions will be taken, as appropriate:

- Monitor, limit or temporarily suspend activity in the account
- Investigate the source of the intrusion and whether it is limited to an account or certain accounts
- Notify the clearing firm, if applicable
- Contact the SEC and the FINRA coordinator
- If appropriate, contact law enforcement such as the FBI or the U.S. Postal Inspector if mail is involved
- Contact relevant state regulatory authorities
- Determine whether specific notice to the customer is required under state law if personally identifiable information has been compromised
- Contact the customer and change access passwords and/or account numbers
- Determine whether SAMCO should file a Suspicious Activity Report (SAR)

If firm data is compromised not involving customer accounts, Compliance and/or Legal (or outside counsel) must determine action to be taken which may include some of the actions listed above.

6.36.6 Employee Training

Employees will receive training/information regarding SAMCO's security policy at the time of hire and on an ongoing basis. Training will include:

- Employees' obligation to maintain confidentiality of customer information
- Use of encryption for laptops and other remote devices when retrieving personally identifiable customer information
- Precautions/prohibitions against using Wi-Fi where customer information could be compromised
- Use of passwords, periodic changing of passwords
- Avoiding display of confidential information on remote devices where the information could be compromised

7 ANTI-MONEY LAUNDERING (AML) PROGRAM

[FINRA Rule 3310; NASD Notice to Members 02-21; FINRA web site AML page (<http://www.finra.org/RulesRegulation/IssueCenter/Anti-MoneyLaundering/index.htm>); Bank Secrecy Act; Financial Crimes Enforcement Network (FinCEN) web site (<http://www.fincen.gov/index.html>); FinCEN regulatory guidance: http://www.fincen.gov/reg_guidance.html; Office of Foreign Assets Control (OFAC) web site (<http://www.treas.gov/offices/enforcement/ofac>); Interagency Guidance on Accepting Accounts from Foreign Embassies, Consulates, and Missions: <http://www.fdic.gov/news/news/financial/2011/fil11017a.html>; SEC web site AML page (<http://www.sec.gov/spotlight/moneylaundering.htm>); SEC Anti-Money Laundering (AML) Source Tool: (<http://www.sec.gov/about/offices/ocie/amlsourcetool.htm>); NASDAQ Rule 3011; SIFMA web site regarding AML issues: <http://sifma.org/Issues/Legal,-Compliance-and-Administration/Anti-Money-Laundering-Compliance/Overview/>]

7.1 Introduction

This chapter explains SAMCO's Anti-Money Laundering (AML) Program. An explanation of money laundering and guidance for all employees to detect money laundering is included in the chapter *GENERAL EMPLOYEE POLICIES* in the section *Money Laundering*.

These policies will be updated and appropriate procedures and action effected when new rules are adopted.

7.1.1 Definitions

[Bank Secrecy Act 31 CFR Chapter X Part 1023.100 Subpart A]

Monetary instruments (Bank Secrecy Act, 103.11):

1. Currency;
2. Traveler's checks in any form;
3. All negotiable instruments (including personal checks, business checks, official bank checks, cashier's checks, third-party checks, promissory notes (as that term is defined in the Uniform Commercial Code), and money orders) that are either in bearer form, endorsed without restriction, made out to a fictitious payee (for the purposes of Section 103.23), or otherwise in such form that title thereto passes upon delivery;
4. Incomplete instruments (including personal checks, business checks, official bank checks, cashier's checks, third-party checks, promissory notes (as that term is defined in the Uniform Commercial Code), and money orders) signed but with the payee's name omitted; and
5. Securities or stock in bearer form or otherwise in such form that title thereto passes upon delivery.
6. Monetary instruments do not include warehouse receipts or bills of lading.

7.2 AML Compliance Officer

[NASD Rule 1160; FINRA Rule 3310(d) and 3310.02]

Responsibility	<ul style="list-style-type: none">• AML Compliance Officer
Resources	<ul style="list-style-type: none">• Computer reports and other programs developed for the Program• Internal audits or outside audits of the Program• Regulations and rules for broker-dealer anti-money laundering programs• OFAC web site• Other sites and resources available
Frequency	<ul style="list-style-type: none">• Annual - review policies and procedures• Annual and more frequently, as needed - develop and schedule AML

	<ul style="list-style-type: none"> education for employees As needed - update program and provide revisions to senior management for review and approval Annually - review AML contact information on file with FINRA Ongoing - review new regulations Ongoing - monitor activity
Action	<ul style="list-style-type: none"> Develop and update SAMCO's anti-money laundering program Obtain senior management approval for the program and any changes to the program Monitor (or designate monitoring) the activity of SAMCO, its associated persons, and customers to reasonably detect and prevent money laundering activities Develop AML education program for employees and schedule training File required reports Retain required records Provide contact information to FINRA and update contact information if necessary
Record	<ul style="list-style-type: none"> Designation of AML Compliance Officer Current and past copies of anti-money laundering program with senior management approval Records of AML education including who attended, date of training, and material covered Reports filed Other records to be retained, as listed in the Program

SAMCO has designated an AML Compliance Officer who is responsible for developing policies, procedures, and internal controls reasonably designed to achieve compliance with AML rules and regulations.

7.3 Independent Testing

[FINRA Rule 3310.01]

Responsibility	<ul style="list-style-type: none"> AML Compliance Officer
Resources	<ul style="list-style-type: none"> Policies and procedures Independent testing results
Frequency	<ul style="list-style-type: none"> Annual - schedule, conduct, and follow up testing (unless the firm qualifies for testing every two years)
Action	<ul style="list-style-type: none"> Identify person(s) to conduct testing Conduct testing Report results to Chairman/President in annual compliance report Revise policies and procedures as necessary Conduct follow-up to determine corrective action has been taken
Record	<ul style="list-style-type: none"> Independent testing results including who conducted and dates of review

	<ul style="list-style-type: none"> • Report to Chairman/President • Record of changes to policies and procedures resulting from testing • Record of follow-up actions
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The AML Compliance Officer will arrange for annual (on a calendar-year basis) independent testing of SAMCO's policies and procedures regarding money laundering and the effectiveness of the program. The review is conducted by member personnel or a qualified outside party. More frequent reviews will be conducted, if necessary, as determined by the AML Compliance Officer.

Independent testing must be conducted by someone with a working knowledge of the Bank Secrecy Act and implementing regulation requirements. Independent testing may not be conducted by:

- A person who performs the functions being tested;
- The designated AML Compliance Officer; or
- A person who reports to a person described in the above two items.

7.4 Training Program

All employees are provided with SAMCO's Anti-Money Laundering policy when they are hired. The policy is included in the chapter *GENERAL EMPLOYEE POLICIES*.

In addition, ongoing education will include the firm element continuing education program, periodic circulation of SAMCO's policy, and other educational programs directed at specific employees such as operations personnel. Training will be delivered at least annually by video, intranet systems, in-person lectures, and other methods including third parties who deliver AML training.

Training will include the following, as well as other subjects identified by the AML Compliance Officer:

- How to identify red flags and signs of money laundering
- What to do once the risk is identified (how, when and to whom to escalate unusual customer activity or other red flags)
- Employees' roles in SAMCO's compliance efforts and how to perform them
- SAMCO's record retention policy
- Disciplinary consequences (including civil and criminal penalties) for non-compliance

The AML Compliance Officer is responsible for retaining records of employees trained, the dates of training, and the subjects included in training.

7.5 Updates of the PATRIOT Act

Section 311 & 312 of the USA PATRIOT ACT

- Section 311 of the USA PATRIOT Act concerns Special Measures for Jurisdictions, Financial Institutions, or International Transactions of Primary Money Laundering Concern. SAMCO will periodically check the FinCEN website to ascertain whether any of these special measures are applicable to SAMCO and to implement related procedures in a timely manner.
- Section 312 of the USA PATRIOT Act requires U.S. financial institutions to perform due diligence and in some cases, enhanced due diligence with regard to correspondent accounts established or maintained for foreign financial institutions and private banking accounts established or maintained for non-U.S. Persons.
- SMACO will periodically monitor the FinCEN Website to ascertain whether any of the provisions of the above sections require changes to this AML Policy.
- The Compliance Department, in conjunction with section 314 list of suspects review, will review the Section 311 page – Section 311 – Special Measures (http://www.fincen.gov/reg_section311.html) – for Special Measures. A record of the review

will be maintained on a spreadsheet found at S:\Compliance Review Folder\Anti-Money Laundering\FinCEN list of suspects.

7.6 OFAC List And Blocked Property

[Dept. of Treasury, various statutes; OFAC web site (<http://www.treas.gov/offices/enforcement/ofac/>); Foreign Assets Control Regulations For The Securities Industry (<http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf>)]

The property of sanctioned persons or entities will be blocked and transfer of assets prevented for persons or entities included on the OFAC list of blocked persons or entities. In addition, securities issued by sanctioned countries and other sanctioned issuers will be blocked. OFAC (the Office of Foreign Assets Control of the U.S. Treasury Department) enforces the sanctions and publishes, on its web site (www.treas.gov/ofac), information about sanctions. The information is divided into several categories including:

- Persons and entities subject to sanctions, *Special Designated Nationals and Blocked Persons* (SDN list)
- Persons and entities engaged in drug trafficking, *Specially Designated Narcotics Traffickers* (SDNTKs)
- Terrorists and terrorist organizations, *Specially Designated Terrorists* (SDTs)
- Countries, governments, and other entities subject to sanctions

OFAC requirements apply to all persons and entities under U.S. jurisdiction, including foreign branches of U.S. institutions. This also includes foreign institutions that operate in the U.S.

The term "OFAC list" in this section includes all sanctions published by OFAC even though the information may appear in multiple lists. SAMCO relies on its clearing firm to monitor OFAC lists and block accounts and securities where appropriate and to file necessary reports.

7.6.1 Prohibited Transactions

SAMCO is prohibited from conducting transactions in any account on behalf of a sanctioned party or in certain blocked securities. Securities and funds may not be released and securities transactions may not be executed. Securities and funds may be deposited to a blocked account, but no securities or funds will be released until the account is no longer subject to sanctions. Funds or securities may not be transferred to sanctioned parties.

Because transactions are prohibited, all open orders for a blocked account will be cancelled.

7.6.2 Risk Factors

[http://www.treas.gov/offices/enforcement/ofac/policy/securities_risk_11052008.pdf]

Following are risk factors identified by OFAC that may warrant a heightened level of scrutiny.

International transactions, including wire transfers:

- a) High number of international transactions, cross-border transactions, or investments in a foreign investment fund or on a foreign exchange;
- b) Presence of overseas branches or multiple correspondent accounts with foreign financial institutions, including correspondent accounts subject to enhanced due diligence under Section 312 of the USA PATRIOT Act.

Foreign customers/accounts:

- a) A large, fluctuating client base across a number of foreign jurisdictions involving a large number of security transactions;

- b) Customers located in or having accounts in high-risk jurisdictions, such as countries found to be of "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act;
- c) Customers located in or having accounts in countries that are havens for money laundering or are inadequately regulated, including countries identified by the Financial Action Task Force as maintaining an inadequate AML/CFT regime;
- d) Customers located in or having accounts in countries where local laws, regulations, or provisions (such as privacy laws) prevent or limit the collection of client identification information;
- e) Customers located in an offshore financial center as identified by the U.S. Department of State;
- f) Accounts for senior political or government officials ("politically exposed persons") of a foreign government;
- g) Accounts of closely held corporations;
- h) Accounts for unregistered or unregulated investment vehicles;
- i) Accounts for non-resident aliens;
- j) Accounts maintained at an offshore bank.

Foreign broker-dealers who are not subject to OFAC regulations:

- a) Lack of information regarding beneficial owners of securities; and
- b) Foreign broker-dealers that act as introducing brokers.

Risks of Investments in Foreign Securities:

Practical exposure increases when investing in a foreign investment fund or foreign exchange, because of the risk that the securities are issued by a sanctioned country or party or otherwise in violation of OFAC sanctions, e.g., securities of an issuer that provides financing for a sanctions target. Other risk factors include:

- a) Cross-border settlements involving the interaction of different settlement systems and laws in different countries;
- b) Foreign securities that may be more prone to misidentification in the course of a trade, e.g., similar names between two foreign issuers;
- c) Foreign companies that issue shares in bearer form.

Personal Investment Corporations or Personal Holding Companies:

Beneficial ownership by a non-U.S. person that maintains a private banking account with a U.S. financial institution.

Very High Net Worth Institutional Accounts, Hedge Funds, Funds of Hedge Funds and Other Alternative Investment Funds (Private Equity, Venture Capital Funds) and Intermediary Relationships:

- a) Lack of transparency regarding securities/investments and beneficial owners;
- b) U.S. hedge fund with an offshore related fund where beneficial owners are offshore investors; and

c) Subscription funds that originate from or are routed through an account maintained at an offshore bank, or a bank organized or chartered in an inadequately supervised and poorly regulated jurisdiction, or a foreign shell bank.

Omnibus Accounts/Use of Intermediaries:

a) Potential for the use of code names to invest funds in the United States on behalf of sanctions targets, concealing the identities of the beneficial owners;

b) Accounts for intermediaries held in street name that trade on behalf of third parties, such as other broker-dealers, banks, and mutual funds; and

c) Cross-border trades executed for unregulated investment vehicles, *e.g.*, hedge funds, private equity funds, and other private pools of capital.

Third-Party Introduced Business:

Business introduced by an overseas bank, affiliate, or other investor based in high risk or inadequately regulated countries.

Confidential Accounts:

Private banking accounts established or maintained for non-U.S. persons or services, including financial and related services, to wealthy clients who use offshore accounts for tax avoidance purposes.

7.6.3 Blocking Requirements

Blocking requirements are generally triggered under the following circumstances:

- An account is opened for someone included on an OFAC list.
- The owner of an existing account is added to an OFAC list.
- A security is identified in a customer account where the issuer is the subject of sanctions.
- A request is made by a customer to pay or transfer funds or securities to a blocked person or entity.

While title to blocked property remains with the blocked person or entity, transactions affecting the property (including transfer of the assets) cannot be made without authorization from OFAC. Debits to blocked accounts are prohibited, but credits may be accepted. Cash balances in blocked accounts must earn interest at commercially reasonable rates. Blocked securities may not be paid, withdrawn, transferred (even in book transfer), endorsed, guaranteed, or otherwise dealt in.

It is not a violation to open an account for a blocked person. The violation occurs when the account is not frozen and assets are allowed to transfer out of the account. In addition, OFAC restrictions may vary depending on the blocked person or entity; details of blocking requirements are explained on the OFAC web site.

7.6.4 Monitoring Procedures

Monitoring is to be conducted as follows:

- Operations personnel should be aware of the countries included on the OFAC list, to watch for new accounts to be opened for or requests to transfer funds or securities to residents of those countries.
- SAMCO (or a clearing firm or other third party) has procedures to monitor new accounts, existing accounts, security positions, and potential disbursements of funds or securities.

7.6.5 Other Requests To Monitor Accounts

Regulators or law enforcement agencies may ask the industry's cooperation in identifying accounts for individuals or entities under investigation or suspected of criminal activities.

The AML Compliance Officer is responsible for responding to such requests; providing the necessary information; and retaining records of requests, reviews conducted pursuant to requests, and information provided to authorities.

7.6.6 Blocking Property And Disbursements

Any blocked account will not be permitted to engage in transactions other than the acceptance of deposits of funds or securities. Open orders of blocked accounts will be cancelled.

Disbursements of funds or securities may not be made to sanctioned parties. SAMCO (or a clearing firm) is responsible for monitoring requests for disbursements.

7.6.7 Reporting Blocked Property And Legal Actions

When an account or disbursement is blocked or a blocked security is identified, OFAC will be notified within 10 days of blocking. If SAMCO blocks an account or security, it will file the necessary report with OFAC. Reports filed by SAMCO will be retained in a file of blocked accounts or securities.

Information to be reported includes:

- Owner or account party
- Property and property location
- Existing or new account number
- Actual or estimated value
- Date property was blocked
- Copy of the payment or transfer instructions
- Confirmation that funds have been deposited in a blocked account that is identified as blocked
- Name and phone number of contact person at SAMCO

For rejected disbursements, the following information is to be filed:

- Name and address of the transferee financial institution
- Date and amount of the transfer
- Copy of the payment or transfer instructions
- Basis for rejection
- Name and phone number of contact person at SAMCO

7.6.7.1 Annual Report Of Blocked Property

On an annual basis by September 30th, Form TDF 90-22.50 will be filed with OFAC for any blocked property held as of June 30.

7.6.7.2 Legal Actions Involving Blocked Property

U.S. persons involved in litigation, arbitration, or other binding alternative dispute resolution proceedings regarding blocked property must provide notice to OFAC. Copies of all documents associated with the proceedings will be submitted by Compliance to the OFAC Chief Counsel at the U.S. Treasury Department within 10 days of their filing. In addition, information about the scheduling of any hearing or status conference will be faxed to the Chief Counsel.

7.6.8 Role Of Operations Personnel

Operations personnel are an important first line of defense in preventing transactions with sanctioned parties. The following guidance is provided to assist Operations personnel in identifying blocked parties. Any questioned accounts or transactions should be referred to Compliance.

- Be familiar with countries included on the OFAC list. These are countries considered potential havens for money laundering, drug trafficking, or terrorist activities. Information is included on the OFAC web site at www.treas.gov/ofac.
- When processing the opening of accounts, question accounts for residents of countries included on the OFAC list.
- Question requests to transfer funds or securities to residents or entities domiciled in any country included on the OFAC list.

7.7 Currency Reporting Requirements

[SEC Securities Exchange Act of 1934 Rule 17a-8; Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart C; FinCEN pamphlet on CTR reporting: <http://www.fincen.gov/whatsnew/html/20090224.html>]

The following summarizes the reporting requirements under the Bank Secrecy Act. SAMCO's designated supervisor of Operations is responsible for maintaining records of any currency reports required to be filed by SAMCO and retaining them for five years.

7.7.1 Transactions Involving Currency Over \$10,000

If SAMCO accepts a currency deposit exceeding \$10,000, it is required to file a Currency Transaction Report (CTR) with the Financial Crimes Enforcement Network (FinCEN). Multiple transactions by the same person equaling over \$10,000 in any one day must also be reported.

"Currency" is defined as the coin and paper money of the U.S. or legal tender of other countries. Currency also includes U.S. silver certificates, U.S. notes, federal reserve notes, and official foreign bank notes customarily used and accepted as a medium of exchange in a foreign country. CTRs must be filed by the 15th calendar day after the day of the transaction and kept for 5 years.

7.7.2 Transactions Involving Currency Or Bearer Instruments Over \$10,000 Transferred Into Or Outside The U.S.

Broker-dealers are required to file a Currency and Monetary Instrument Transportation Report (CMIR) with the U.S. Customs Service to report transactions in currency and/or bearer instruments which alone or in combination exceed \$10,000 and which are shipped or transported into or outside the U.S. This filing is not required for currency or other monetary instruments mailed or shipped through the postal service or by common carrier. SAMCO (or clearing firm or other third party) is responsible for filing these reports and maintaining records of them. CMIRs must be filed within 15 days after the receipt of the currency or monetary instruments.

7.7.3 State Reporting Requirements

States have adopted various currency and suspicious activity reporting requirements. Most states have entered into an agreement with FinCEN to provide them with duplicate copies of forms filed by broker-dealers. Some states, however, require duplicate filing with the states themselves at the time the broker-dealer files with a federal agency. SAMCO will file reports as required under state requirements.

7.8 Foreign Financial Account Reporting Requirements And Recordkeeping (FBAR)

[Bank Secrecy Act 31 CFR Chapter X Part 1010 Subpart C; Form: http://www.fincen.gov/forms/files/f9022-1_fbar.pdf; FinCEN Notice 2012-1]

Certain "United States persons" that maintain accounts (including any account where the person has a financial interest in, or signature or other authority over) in foreign jurisdictions and with aggregate balances exceeding \$10,000 are required to file a Report of Foreign Bank and Financial Accounts (FBAR) Department of Treasury Form 90-22.1 with FinCEN on or before June 30th of each calendar year for accounts maintained during the previous calendar year. Certain U.S. persons with signature authority over, but no financial interest in, foreign financial accounts of their employers and entities

related to their employers have an extension until June 30, 2013 to file Form 90-22.1 (see FinCEN Notice 2012-1). The FINOP is responsible for filing the annual report if it is required for SAMCO.

The filing requirement applies to:

- Non-resident aliens and foreign entities "in and doing business" in the U.S.
- All forms of U.S. business entities, trusts, estates with foreign accounts.
- U.S. citizens and residents with signature or other authority over a foreign account.
- Trust beneficiaries with a greater than 50% beneficial interest in a trust with a foreign account.
- U.S. citizens and resident stockholders with greater than 50% of the value or vote of the shares of a corporation with foreign accounts.
- Entities that are disregarded for tax purposes, such as limited liability companies.

The filing requirement does not apply to certain entities or situations. The regulation should be consulted for specific exemptions or conditions of exemptions.

- If the account is maintained in the United States, it is not considered a foreign account even if it holds foreign assets.
- An omnibus account held by a custody bank that holds assets both in the U.S. and outside the U.S. is not considered a foreign account unless the customer has direct access to its foreign holdings maintained at the foreign institution.
- Certain entities are excluded including: foreign hedge funds, venture capital funds, or private equity funds; tax-exempt investors that own offshore "blocker corporations;" government pension funds; pension plan participants and IRA owners (provided the trustee files a FBAR); investment advisers and employees of such advisers that provide advice to SEC-registered entities; remainder interests in trusts and beneficiaries of discretionary trusts; employees of a U.S. or foreign entity that issued a class of foreign equity (including ADRs) registered with the SEC.

There also are exemptions for officers or employees with signature or other authority over certain foreign financial accounts but no financial interest in the reportable account. The regulation should be consulted for details regarding who is not required to notify FinCEN regarding signature or other authority over such an account.

7.9 Recordkeeping Requirements (Joint Rule and Travel Rule)

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart D]

In addition to maintaining records of reports filed with the IRS or other authorities, broker-dealers are obligated to maintain records of certain transactions, for potential inspection by regulators and other authorities. These records must be retained for five years.

7.9.1 Fund Transfers And Transmittals

[Bank Secrecy Act 31 CFR Chapter X Part 1010 Subpart D; FINRA Notice to Members 97-13, 96-67 and 95-69; SEC Q&As: <http://www.sec.gov/about/offices/ocie/aml2007/fincen-advisu7.pdf>; SEC Q&As: <http://www.sec.gov/about/offices/ocie/aml2007/fincen-advsiil.pdf>]

Broker-dealers are required to collect and retain information (such as name, address, account number of customer, date and amount of wire, payment instructions, name of recipient institution, and name and account information of wire payment recipient) and maintain records for domestic and international funds transfers (including wire fund transfers) of \$3,000 or more, with certain exceptions.

SAMCO (and its clearing firm or other third party, if applicable) is responsible for complying with the requirements to record information regarding fund transfers and, when required, verifying information regarding transmitters and recipients who are not established customers. Examples of verification information include:

- Name and address
- ID reviewed (type and number on the ID)
- Taxpayer ID number (or alien ID or passport number including country of issuance)
- Copy or record of method of payment (e.g., credit card, check)

7.9.2 Other Recordkeeping Requirements

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart D 1023.410]

The Bank Secrecy Act incorporates other records requirements that include records covered by *Books And Records* in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*. SAMCO will retain all of the following required records:

1. Trading authorizations which are addressed in the chapter *ACCOUNTS*
2. Records under 17a-3 which are addressed in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*
3. A record of each receipt of currency, other monetary instruments, checks, or investment securities and of each transfer of funds or credit, of more than \$10,000 received on any one occasion directly and not through a domestic financial institution, for any person, account or place outside the United States.

7.10 Detecting Potential Money Laundering

Responsibility	<ul style="list-style-type: none"> • AML Compliance Officer • Other designated supervisor for review of AML Compliance Officer accounts
Resources	<ul style="list-style-type: none"> • Internal reports of transactions, available exception reports
Frequency	<ul style="list-style-type: none"> • Daily and ongoing
Action	<ul style="list-style-type: none"> • Review reports of transactions (cash and security transactions) to identify potential money laundering (including employee accounts) • Another designated supervisor will review the AML Compliance Officer's accounts • Report suspicious activity (see the policy in this chapter) • Notify RRs, supervisors, and close accounts when necessary
Record	<ul style="list-style-type: none"> • Reports reviewed • Action taken, when necessary • Suspicious activity reports

SAMCO has an ongoing program to identify potential money laundering. Monitoring will be conducted using available exception reports or review of a sufficient amount of account activity to permit identification of patterns of unusual size, volume, pattern or type of transactions, geographic factors such as whether jurisdictions designated as "non-cooperative" are involved, or involve "red flags" (indicators of potential money laundering) which are included in the *Money Laundering* policy in the chapter *GENERAL EMPLOYEE POLICIES*. Items reviewed include trading and wire transfer transactions in the context of other account activity to determine if a transaction lacks financial sense or is suspicious because it is an unusual transaction or strategy for that customer. Among the

information used to determine whether to file a suspicious activity report are exception or transaction reports that include transaction size, location, type, number, and nature of the activity.

Trading accounts will be identified and monitored where a series of financial transactions may help obscure the origins of the funds. This may include effecting securities transactions, closing the account, and transferring funds to a bank or other account, particularly to an offshore location. Trading penny stocks (which may involve unregistered distributions) or engaging in retail forex trading will, in particular, be monitored when they occur.

SAMCO has included an educational policy (*Money Laundering*) in the chapter *GENERAL EMPLOYEE POLICIES* to educate employees on money laundering and guidelines for detecting money laundering activities. Periodically detection of money laundering and the obligation to report suspicious activities will be included in continuing education and other educational programs for employees.

7.10.1 Clearing Firm AML Procedures

SAMCO will work with the clearing firm to exchange information, records, data and exception reports as necessary to comply with AML laws. Required certifications for information sharing are on file. As a general matter, the clearing firm will monitor SAMCO's customer activity on SAMCO's behalf, and the clearing firm will be provided with proper customer identification information as required to successfully monitor customer transactions. SAMCO's and the clearing firm's responsibilities are included in the clearing agreement and each firm is responsible for its own independent compliance with AML laws. SAMCO and the clearing firm cannot disclaim their respective responsibilities to comply with AML requirements.

7.10.2 Foreign Currency Transactions

Foreign financial institutions may purchase U.S.-denominated bonds, generally issued by foreign governments, with the local currency, which are then transferred to a U.S. broker-dealer and sold, with proceeds then transferred offshore. U.S. broker-dealers act as intermediaries in these transactions and may receive foreign bonds or other securities worth millions of U. S. dollars without knowing who or how many underlying customers may be involved. RRs and SAMCO must be diligent about such transactions which may involve money laundering.

7.11 Information Sharing Between Financial Institutions

[USA PATRIOT Act Section 314(b); Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart E; FinCEN certification: http://www.fincen.gov/fi_infoappb.html; FinCEN guidance on sharing with affiliates: http://www.fincen.gov/news_room/nr/html/20101122.html]

Under an AML regulation, financial institutions are permitted to share information regarding those suspected of terrorist or money laundering activities. Information sharing is not required but is permitted solely for the purpose of facilitating identification and reporting. The regulation provides immunity from other laws restricting information sharing if certification and confidentiality requirements of the regulation are satisfied.

Institutions that share information are required to provide FinCEN with annual certification that confirms, among other things, the name of the institution; that the institution will maintain adequate procedures to protect the security and confidentiality of the shared information; that the information will be used only for the authorized purpose; and the identity of a contact person at the institution.

SAMCO will share information about those suspected of terrorist financing and money laundering with other financial institutions for the purpose of identifying and reporting activities that may involve terrorist acts or money laundering activities and to determine whether to establish or maintain an account or engage in a transaction. The AML Compliance Officer will file the required certification with FinCEN and re-certify annually. All information will be treated as confidential and will be maintained in the AML Compliance Officer's files which may either be hard-copy files or password-protected electronic files.

In addition, the AML Officer will verify that any financial institution with which SAMCO shares information (including affiliates) has itself filed the requisite certification. A written letter or attestation will be required from the other financial institution and maintained in the AML Officer's files or a list provided by FinCEN will be consulted and a record made that the other institution has filed the required certification.

7.12 Suspicious Activity Reports (SARs)

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart B; USA PATRIOT Act Section 356; FINRA Notice to Members 02-47; FinCEN Guidance on Suspicious Activity Report Supporting Documentation: http://www.fincen.gov/Supporting_Documentation_Guidance.pdf; FinCEN Guidance FIN-2008-G005; FinCEN Guidance regarding sharing SAR information with affiliates: http://www.fincen.gov/news_room/nr/html/20101122.html; FinCEN Advisory FIN-2010-A014 Maintaining the Confidentiality of Suspicious Activity Reports: http://www.fincen.gov/statutes_regs/guidance/html/FIN-2010-A014.htm]

Responsibility	<ul style="list-style-type: none"> • AML Compliance Officer
Resources	<ul style="list-style-type: none"> • Reports from employees of crimes or suspected crimes • Suspicious activities detected through ongoing reviews • Other available information
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review and investigate suspicious transactions referred by employees • Determine whether the Firm (or its clearing firm, if applicable) will file a SAR • If appropriate, file Form SAR-SF with FinCEN and state authorities • Notify senior management, as appropriate, of forms filed • Provide copy to parent company, if applicable • File SARs jointly with other financial institutions, if applicable
Record	<ul style="list-style-type: none"> • Notes and other documented reviews are retained in a suspicious activity file • Copies of SARs filed by SAMCO are retained in the SAR file with notation of when and to whom sent

SAMCO will file Suspicious Activity Reports (SARs) for transactions that may be indicative of money laundering activity. Suspicious activities include a wide range of questionable activities; examples include trading that constitutes a substantial portion of all trading for the day in a particular security; trading or journaling between/among accounts, particularly between related owners; late day trading; heavy trading in low-priced securities; unexplained wire transfers, including those to known tax havens; unusually large deposits of funds or securities. For business introduced to a clearing firm, SAMCO will rely on the clearing firm to make filings on its behalf and to provide copies to SAMCO.

7.12.1 Identifying Potential Suspicious Activity

SAMCO uses a number of tools to identify potential suspicious activity including:

- Transaction information including disbursement of funds or securities
- Education of Firm personnel, particularly supervisors in Operations areas
- Employee reports of potential suspicious activity forwarded to the AML Compliance Officer
- Information or reports provided by a clearing firm, if applicable for business introduced to a clearing firm

7.12.2 When A Report Must Be Filed

A SAR must be filed for any transaction that, alone or in aggregate, involves at least \$5,000 in funds or other assets, if SAMCO knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is part) falls into one of the following categories:

- Transactions involving funds derived from illegal activity or intended or conducted to hide or disguise funds or assets derived from illegal activity.
- Transactions designed, whether through structuring or other means, to evade the requirements of the Bank Secrecy Act (BSA).
- Transactions that appear to serve no business or apparent lawful purpose or are not the sort of transactions in which a particular customer would be expected to engage, and for which SAMCO knows of no reasonable explanation after examining the available facts.
- Transactions that involve the use of SAMCO to facilitate criminal activity.

Excluded from the filing requirement are violations otherwise reported to law enforcement authorities such as:

- a robbery or burglary that is reported to law enforcement authorities
- lost, missing, counterfeit, or stolen securities reported pursuant to 17f-1
- a violation of federal securities laws or SRO rules by SAMCO, its officers, directors, employees, or RRs that are reported to the SEC or SRO, except for violations of Rule 17a-8 (filing of Currency and Transaction Reports) which must be reported on a SAR

7.12.3 Filing A Report And Emergency Notification

If SAMCO determines to file a SAR with FinCEN, the AML Compliance Officer will file:

- within 30 days of becoming aware of the suspicious transaction; or
- if no suspect has been identified within 30 calendar days of detection, reporting may be delayed an additional 30 calendar days or until a suspect has been identified, but no later than 60 days from date of initial detection.

In situations involving violations that require immediate attention (such as terrorist financing or ongoing money laundering schemes), the AML Compliance Officer will immediately notify by telephone an appropriate law enforcement agency. Suspicious transactions that may relate to terrorist activity may also be reported to FinCEN's Financial Institutions Hotline. In either event, a SAR will be filed.

7.12.3.1 Emergency Notification

[FINRA Notice to Members 02-21]

When conducting due diligence or opening an account, Federal authorities will be notified immediately by the AML Compliance Officer, when necessary, in the following situations:

- A legal or beneficial account holder or person is engaged in a transaction listed on or located in a country or region listed on the OFAC list.
- An account is held by an entity that is owned or controlled by a person or entity listed on the OFAC list.
- A customer tries to use bribery, coercion, or similar means to open an account or carry out a suspicious activity.
- There is reason to believe a customer is trying to move illicit cash out of the government's reach.
- There is reason to believe the customer is about to use funds to further an act of terrorism.

Emergency contacts include:

- OFAC Hotline
- Financial Institutions Hotline
- Local U.S. Attorney's office
- Local FBI office
- Local SEC office

7.12.4 Retention Of Records

The AML Compliance Officer maintains a file of copies of SARs filed with FinCEN and all related documents for a period of 5 years from the filing date.

7.12.5 Providing SARs Information To SROs

[SEC letter to CEOs: <http://www.sec.gov/about/offices/ocie/brokerdealerletter.htm>]

While SARs are to be treated as confidential, SAMCO will provide SARs and supporting documentation available to any self-regulatory organization (SRO) that examines SAMCO for compliance with the SAR Rule, upon request of the SEC. The request may be part of a routine examination, an investigation, or part of the SRO's risk assessment effort within its examination program.

7.12.6 Prohibition Against Disclosure

By statute and regulation, SAMCO may not inform customers or third parties that a transaction has been reported as suspicious. U.S. Treasury and Federal Reserve Board regulations also require SAMCO to decline to produce SARs in response to subpoenas and to report to FinCEN and the Federal Reserve Board the receipt of such requests and SAMCO's response. Failure to maintain the confidentiality of SARs may subject an employee to civil and criminal penalties under Federal law. Violations may be enforced through civil penalties of up to \$100,000 for each violation and criminal penalties of up to \$250,000 and/or imprisonment not to exceed five years. SAMCO may also be liable for civil money penalties resulting from AML deficiencies that led to improper SAR disclosure up to \$25,000 per day for each day the violation continues.

Procedures to protect the confidentiality of SARs include the following:

- Access to SARs is limited to employees on a "need-to-know" basis
- SARs will be maintained in locked physical or electronic files
- SARs may not be left on desks or on open computer files and must be viewed without access by unauthorized persons
- SARs shared with others will be clearly marked "Confidential"

Compliance (or SAMCO's counsel) is responsible for responding to subpoena requests and Compliance will notify FinCEN and the Federal Reserve Bank of any subpoenas for SARs.

7.13 Requests And Written Notices From Regulators, Enforcement Agencies, And Other Authorized Persons

Under the Bank Secrecy Act, financial institutions are required to respond to federal banking agency requests for information relating to anti-money laundering compliance. The Rule requires provision of information and account documentation for any account opened, maintained, administered or managed in the U.S. The AML Compliance Officer maintains records of information provided in response to regulators' requests including the request, date of response, and information provided.

7.13.1 Federal Banking Agency Requests -- 120-Hour Rule

[USA PATRIOT Act Section 319(b)]

Upon receiving a request from a Federal banking agency, the AML Compliance Officer will provide the requested information within 5 days (120 hours) of receiving the request or will make available the information for inspection by the banking agency.

7.13.2 Information Sharing With Enforcement Agencies

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart E; USA PATRIOT Act Section 314; FinCEN 314(a) Fact Sheet: http://www.fincen.gov/statutes_regs/patriot/pdf/314afactsheet.pdf]

Responsibility	<ul style="list-style-type: none"> • AML Compliance Officer
Resources	<ul style="list-style-type: none"> • Deposit records, purchase/sale records, account records, other records as required
Frequency	<ul style="list-style-type: none"> • Upon request
Action	<ul style="list-style-type: none"> • Conduct a search of the required records • If a match is found, submit the information to the requesting agency
Record	<ul style="list-style-type: none"> • Copies of the request, notation of records searched, and information submitted (if a match is found) are retained

Enforcement agencies (FinCEN, state, local, and certain foreign law enforcement agencies eligible to make requests) send requests to financial institutions under Section 314 of the USA PATRIOT Act.

Requests for information will be forwarded to the AML Compliance Officer for response. SAMCO has 2 weeks from the date of transmission to respond to the request. For FinCEN requests, the Subject Information Form (included with FinCEN's request) will be forwarded to FinCEN by electronic mail to sys314a@fincen.treas.gov or, if e-mail is not available, by fax at 703-905-3660.

Enforcement agency requests are confidential and may not be disclosed to the subject of the request. SAMCO will not use information provided to enforcement agencies for any purpose other than (1) to report to an agency as required under Section 314; (2) to determine whether to establish or maintain an account, or to engage in a transaction; or (3) to assist SAMCO in complying with any requirement of Section 314.

7.13.3 National Security Letters

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

National Security Letters (NSLs) are written investigative demands that may be issued by the local Federal Bureau of Investigation and other federal government authorities conducting counterintelligence and counterterrorism investigations to obtain, among other things, financial records of broker-dealers. **NSLs are highly confidential. SAMCO and its employees are barred from disclosing to any person that a government authority or the FBI has sought or obtained access to records.**

The AML Compliance Officer is responsible for responding to an NSL and maintaining the confidentiality of the letter and the response. If an SAR-SF is filed after receiving an NSL, the SAR-SF cannot make reference to the receipt or existence of an NSL. The SAR-SF will only contain detailed information about the facts and circumstances of the detected suspicious activity.

7.13.4 Grand Jury Subpoenas

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

The receipt of a grand jury subpoena concerning a customer does not in itself require the filing of a Suspicious Activity Report (SAR-SF). When a grand jury subpoena is received, the AML Compliance Officer will:

- Conduct a risk assessment of the customer subject to the subpoena as well as review the customer's account activity.
- If suspicious activity is identified during the risk assessment and review, the risk assessment will be elevated and an SAR-SF will be filed. 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.

The existence of a subpoena and any response are confidential and may not be disclosed directly or indirectly to the person who is the subject of the subpoena. The AML Compliance Officer will maintain the subpoena and any response in a confidential file and will only share information with those authorized.

7.13.5 Foreign Bank Correspondent Accounts

[USA PATRIOT Act Section 313]

Upon receipt of a written request from a Federal law enforcement officer for information about a foreign bank correspondent account, the AML Compliance Officer will provide the requested information no later than 7 days after receipt of the request.

Compliance will terminate any correspondent relationship with a foreign bank within 10 business days of receiving a notice from the Treasury Dept. or the U.S. Attorney General that the foreign bank failed either to comply with a summons or subpoena or to contest it in a U.S. court.

7.13.6 Requests By Law Enforcement To Maintain Accounts

[FinCen Guidance on Requests by Law Enforcement for Financial Institutions to Maintain Accounts: http://www.fincen.gov/Maintaining_Accounts_Guidance.html]

Law enforcement agencies may have an interest in having accounts remain open in spite of suspicious or potential criminal activity in connection with the account. The AML Compliance Officer will consider such requests and, if the account will remain open, require the federal law enforcement agency to provide a written request issued by a supervisory agent or by an attorney within the U.S. Attorney's Office or another office of the Department of Justice. If requested by a state or local law enforcement agency, the letter must be issued by a supervisor or local prosecutor's office.

The written request must include:

- the agency's request that the account remain open;
- the purpose of the request; and
- the duration of the request (not to exceed 6 months).

The request will be retained for 5 years.

If SAMCO is aware the account is under investigation (because of a subpoena, 314[a] request, National Security Letter, or similar communication), the requesting law enforcement agency will be advised before making a decision about the status of the account.

7.14 Customer Identification Program (CIP)

[USA PATRIOT Act Section 326; Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart B; FINRA Notice to Members 03-34; FinCEN Frequently Asked Questions: http://www.fincen.gov/cip_faq.html; FinCEN No-Action position on CIP requirements under clearing arrangements: FIN-2008-G002; Guidance on Obtaining and Retaining Beneficial Ownership Information, FinCEN Guidance, FIN-2010-G001 March 5, 2010]

The opening of new accounts is subject to customer identity verification requirements under SAMCO's Customer Identification Program (CIP). Requirements for employees opening accounts as explained in the chapter *ACCOUNTS* are duplicated in this section to consolidate all AML requirements within this chapter.

The use of the term "customer" in this section is understood to include prospective customers.

7.14.1 Other Financial Institutions Providing CIP Services

Responsibility	<ul style="list-style-type: none">• AML Compliance Officer
Resources	<ul style="list-style-type: none">• Other financial institution's CIP• Contract with other financial institution
Frequency	<ul style="list-style-type: none">• At inception of CIP program and as part of annual AML program review• Annual - obtain certification
Action	<ul style="list-style-type: none">• Evaluate other firms' CIP• Contract with other firm to provide CIP• Include CIP in AML program approved by senior management• Obtain annual certification
Record	<ul style="list-style-type: none">• The contract and annual certification are maintained in the AML Compliance Officer's files

Other financial institutions (such as a clearing firm) providing CIP services will sign a contract outlining the services to be provided. The other financial institution will provide annual certification that the CIP complies with anti-money laundering rules and federal laws prescribing customer identification program requirements.

7.14.2 Accounts Requiring Approval By The AML Compliance Officer

The following accounts require review and approval by the AML Compliance Officer at the time of opening. The AML Compliance Officer may require additional customer identification information for these accounts.

- **Numbered accounts** (accounts designating a number rather than a name as the account name).
- **Any account requesting confidential handling** of its name, mailing of confirmation and statements, *etc.*
- **Accounts domiciled in high risk countries.** Accounts domiciled in countries identified by OFAC or the Financial Action Task Force on Money Laundering (FATF) as having inadequate anti-money laundering standards or representing high risk for crime and corruption.
- **Foreign public officials.** Includes individuals in high offices of foreign governments, political party officials and their families and close associates (if known and/or readily identifiable).
- **Correspondent and Private Banking accounts.** See the section *Due Diligence For Correspondent And Private Banking Accounts*.

7.14.3 Customer Due Diligence

This section is duplicated from the chapter *ACCOUNTS*.

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• New account application and other customer ID information
Frequency	<ul style="list-style-type: none">• When accounts are opened
Action	<ul style="list-style-type: none">• Before approving an account, determine that customer identification (ID) verification information is included with the new account application and meets SAMCO's requirements• For non-documentary verification, check the information included with the new account application for completeness and consistency with other customer-provided information (name, address, phone number, taxpayer ID number, <i>etc.</i>)• For unacceptable verification information (incomplete, inconsistent), return the application to the RR for further information or disapprove the account
Record	<ul style="list-style-type: none">• New account records include customer ID verification as well as the supervisor's approval

When opening new accounts, the customer's identity must be verified, as required by federal law. Customer identification (ID) information must be completed on the new account application.

Customer ID verification does NOT apply to accounts for:

- persons with an existing account at SAMCO (unless the account requires approval by the AML Compliance Officer)
- banks
- governmental entities
- issuers of listed equity securities
- other financial institutions subject to regulation by the SEC, CFTC, Federal Reserve Board, OCC, FDIC, Office of Thrift Supervision, or the National Credit Union Administration
- persons opening accounts to participate in an ERISA plan

7.14.3.1 Required Customer Information

Basic information required by law **prior to opening the account** includes:

- **Name**
- **Date of birth**, for an individual
- **Address:**
 - for an individual, residential or business street address. If no street address exists or is available, an APO or FPO box number or the residential or business street address of a next of kin or another contact individual
 - for a non-individual (corporation, trust, *etc.*) a principal place of business, local office, or other physical location.
- **Taxpayer identification number** for a U.S. person (U.S. citizen or non-individual established or organized under U.S. or state laws).

- **Identification number for non-U.S. person** which may include a taxpayer ID number; passport number and country of issuance; alien identification card number; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photo or similar safeguard.

In the case of a customer who has applied for a taxpayer identification number but has not yet received it, notation must be made on the new account application that the taxpayer ID has been applied for. The account will be restricted to liquidating transactions if the taxpayer ID number is not received within 30 days of opening the account.

7.14.3.2 Accounts For Individuals

When opening an account for an individual, the following information is required:

- An unexpired government-issued identification including a photo and nationality or residence such as a driver's license or passport and record information from it on the new account application, **OR**
- A copy of the photo ID with the new account application. (The photo ID [original or copy] must be seen by the employee opening the account to record the information. This information may NOT be taken from the customer over the phone.)
- If the photo ID is not available at the time the new account application is being completed, the RR is to indicate on the new account application whether the customer will provide a copy of photo ID within 30 days of account opening **OR**, if the customer cannot provide a photo ID, the reason why not.
- If the photo ID is not received within 30 days, the account will be restricted to liquidating transactions only until the ID is received.

If the customer has not appeared in person at SAMCO's office, "non-documentary" information will ALSO be required, as explained in the section that follows.

If the customer cannot produce the required photo ID, an explanation must be included on the new account application AND non-documentary information will be required to open the account.

7.14.3.3 Obtaining And Retaining Beneficial Ownership Information

[SEC Release No. 34-61651: Policy Statement on Obtaining and Retaining Beneficial Ownership Information for Anti-Money Laundering Purposes]

For some accounts, beneficial owner information may not be immediately identified when an account is opened. Under AML requirements, firms have an obligation to identify and verify customer accounts and relationships and enhanced due diligence may be necessary depending on the risk profile of the account. Exceptions apply where the customer opening the account is subject to AML rules, such as registered investment advisers and registered broker-dealers.

General obligations when opening accounts that include underlying owners or beneficiaries include:

- Determining whether the customer is acting as an agent for or on behalf of another, and if so, obtaining information regarding the capacity in which and on whose behalf the customer is acting.
- Where the customer is a legal entity that is not publicly traded in the United States, such as an unincorporated association, a private investment company (PIC), trust or foundation, obtaining information about the structure or ownership of the entity so as to allow SAMCO to determine whether the account poses heightened risk.
- Where the customer is a trustee, obtaining information about the trust structure to allow SAMCO to establish a reasonable understanding of the trust structure and to determine the provider of funds and any persons or entities that have control over the funds or have the power to remove the trustees.

If SAMCO has affiliates with public customers, information may be shared across the enterprise to cross-check beneficial ownership information.

7.14.3.4 Enhanced Due Diligence (EDD)

Some types of accounts, because of the potential risk for hiding the identity of underlying beneficial owners or money laundering activities, are subject to enhanced due diligence. The AML Compliance Officer will determine which accounts are subject to EDD and what reviews are necessary. Procedures for correspondent and private banking accounts are included in a separate section of this AML program. Certain trusts, corporate entities, shell entities, and private investment companies are examples of customers that may pose heightened risk.

EDD may include steps, in accordance with the level of risk presented, to identify and verify beneficial owners, to reasonably understand the sources and uses of funds in the account, and to reasonably understand the relationship between the customer and the beneficial owner. EDD information may be used for monitoring purposes and to determine whether there are discrepancies between information obtained regarding the account's intended purpose and expected account activity and the actual sources of funds and uses of the account.

7.14.3.5 Third Party Accounts

Customer ID required for third party accounts includes the following:

On behalf of an incompetent person: Obtain customer ID of the person holding power of attorney.

With power of attorney or trading authorization held by a third party: Obtain customer ID of the owner of the account. Customer ID is not necessary for the individual with authority over the account unless that person is unfamiliar to the RR or the circumstances regarding the opening of the account raises questions (customer requires wiring funds to an offshore address; third party is a foreign citizen; *etc.*).

7.14.3.5.1 Registered Investment Adviser Accounts

[SEC Division of Market Regulation No-Action Letter to SIFMA dated January 11, 2011:
<http://www.sec.gov/divisions/marketreg/mr-noaction/2011/sifma011111.pdf>]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> New investment adviser accounts
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> For each SEC-registered adviser opening accounts with SAMCO where SAMCO will rely on the adviser for CIP compliance: <ul style="list-style-type: none"> Conduct due diligence to review adviser and its customer base Obtain the adviser's written agreement to comply with CIP conditions Obtain annual certification
Record	<ul style="list-style-type: none"> Due diligence review Written agreement of CIP compliance Annual certifications

SAMCO may rely on SEC-registered investments advisers to satisfy CIP requirements under certain conditions. One condition of reliance is that SAMCO undertakes appropriate due diligence on the investment adviser commensurate with SAMCO's assessment of the AML risk presented by the adviser and its customer base.

Reliance is also conditioned on the following:

- it is reasonable to rely on the adviser's assurances;
- the investment adviser is a U.S. investment adviser registered with the SEC under the Investment Advisers Act of 1940;
- the adviser enters into a written agreement with SAMCO in which the adviser agrees that:
 - it has implemented its own AML Program consistent with the requirements of 31 U.S.C. 5318(h) and will update such AML Program as necessary to implement changes in applicable laws and guidance;
 - it (or its agent) will perform the specified requirements of the broker-dealer's CIP in a manner consistent with Section 326 of the PATRIOT Act;
 - it will promptly disclose to the broker-dealer potentially suspicious or unusual activity detected as part of the CIP being performed on the broker-dealer's behalf in order to enable the broker-dealer to file a Suspicious Activity Report, as appropriate based on the broker-dealer's judgment;
 - it will certify annually to the broker-dealer that the representations in the reliance agreement remain accurate and that it is in compliance with such representations; and
 - it will promptly provide its books and records relating to its performance of CIP to the Commission, to an SRO that has jurisdiction over the broker-dealer, or to authorized law enforcement agencies, either directly or through the broker-dealer, at the request of (i) the broker-dealer, (ii) the Commission, (iii) an SRO that has jurisdiction over the broker-dealer or (iv) an authorized law enforcement agency.

7.14.3.6 Accounts For Non-Individuals

Account documents usually obtained for non-individual accounts (trust instruments, articles of incorporation, partnership agreements, government-issued business license, *etc.*) will usually satisfy customer ID requirements. In the case of corporations, a certified copy of the articles of incorporation is required. These documents must be obtained within 30 days of account opening to satisfy the requirement.

7.14.3.7 Non-Documentary Methods Of Verifying Customer Identification

Non-documentary methods of verifying customer ID involve other procedures. Non-documentary methods must be used in the following circumstances:

- An individual is unable to present acceptable photo ID.
- The documents presented are unfamiliar.
- The account is opened without obtaining documents.
- The customer opens the account without appearing in person at SAMCO.
- Other circumstances, at the discretion of the RR's supervisor, New Accounts, and/or the AML Compliance Officer, where SAMCO is unable to verify the customer's identity.

In these circumstances, a non-documentary method must be indicated by the RR on the new account application:

- Direct customer contact information
- Information from a consumer reporting agency or other database
- References from another financial institution
- Obtained a financial statement

7.14.3.8 Additional Verification For Certain Customers

For the following types of customers, a minimum of TWO forms of customer ID are required in addition to review and approval by the AML Compliance Officer **prior to** opening the account:

- Numbered accounts
- Accounts domiciled in high-risk countries included on the Treasury Dept. OFAC list (check with Operations personnel for a list of those countries or go to <http://www.treas.gov/offices/enforcement/lists/>)
- Accounts for foreign public officials (individuals in high office in other countries, their families and close associates, political party officials)

7.14.3.9 Lack Of Customer ID Verification

For **customers presenting unacceptable customer ID** at the time of account opening, the account will not be opened.

For **customers who fail to provide required ID or documents within 30 days of account opening**, the account will be restricted to liquidating transactions only until satisfactory ID verification is received.

For **accounts where non-documentary verification results in substantive, unresolved discrepancies** (information that is inconsistent such as name, address, taxpayer ID number, *etc.*), either the account will not be opened or will be immediately closed.

Where inability to verify raises questions about the customer, filing a Suspicious Activity Report will be considered (see the section *Suspicious Activity Reports*).

Questions regarding accounts that do not comply with requirements to verify customer ID should be referred to the AML Compliance Officer.

7.14.3.10 Customer Notice

Customers are provided notice, prior to opening an account, that their identification will be verified. This notice may be on SAMCO's web site, on new account applications, or in other disclosures provided at the time of account opening.

7.14.4 CIP Records

Customer identification verification records are retained with new account application records in accordance with rule recordkeeping requirements and the terms of the other financial institution's CIP including:

- all identifying information recorded on the new account application
- documentary verification including information from or copies of government-issued IDs or passports
- non-documentary verification
- account approval or disapproval
- resolution of discrepancies
- referral of the account to the AML Compliance Officer
- closing of an account that fails to meet CIP requirements
- other records as may be required

Records are retained for at least 5 years after the account is closed.

7.14.5 Comparison With Government Lists

As required by law, SAMCO compares customer information against government lists. The section *OFAC List And Blocked Property* in the Anti-Money Laundering Program describes comparison of accounts with lists published by the Treasury Dept.

7.15 Identity Theft Prevention Program (FTC FACT Act Red Flags Rule)

[Fair and Accurate Credit Transactions Act (FACT Act) Section 114 and 315; FINRA Regulatory Notice 08-69; FINRA Red Flags Rule web site: <http://www.finra.org/Industry/Issues/CustomerInformationProtection/p118480>; Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation: <http://www.govcollect.org/files/Appendix%20A%20to%20Part%20681.pdf>]

Responsibility	<ul style="list-style-type: none"> • AML Compliance Officer
Resources	<ul style="list-style-type: none"> • New account information • Order records • Transaction information about cash or security transfers • Information reported by employees • Information from third party providers, customers, victims of identity theft, law enforcement agencies or others about potential identity theft
Frequency	<ul style="list-style-type: none"> • When new accounts are opened • When account addresses are changed • Ongoing - review of order records and transaction information • As received - employee information • As required - when a third party is engaged, confirm third party providers (including clearing firms) have identity theft program procedures which may be included in an affirmation in the third party's contract with SAMCO • Annually - review of controls and procedures • As required - provide revised procedures to the Board, Board committee, or CEO • Annually - report to CEO • Annually (or more frequently) - provide training for employees
Action	<ul style="list-style-type: none"> • Establish and maintain the Identity Theft Program <ul style="list-style-type: none"> ○ Provide initial Program and subsequent material changes to the Board, a Board Committee or CEO (if no Board exists) for review and approval ○ Review controls and procedures annually as part of the annual testing described in the chapter <i>SUPERVISORY SYSTEM, PROCEDURES AND CONTROLS</i> • Conduct reviews of orders and transactions to identify red flags • When red flags are identified, take corrective action which may include: <ul style="list-style-type: none"> ○ Consultation with the RR and/or supervisor ○ Monitoring the account ○ Contacting the customer ○ Changing passwords, security codes, or other security devices that permit access to an account ○ Reopening an account with another account number ○ Not opening a new account ○ Closing an existing account ○ Filing a Suspicious Activity Report ○ Notifying law enforcement ○ Taking no action if warranted • Conduct other reviews which may include: <ul style="list-style-type: none"> ○ Periodic use of internet search engines to identify web sites using SAMCO's or an RR's name

	<ul style="list-style-type: none"> ○ Review online advertising to identify web sites for unauthorized links to promote stock fraud or that appear to be illegitimate • If SAMCO's or an RR's identity is being used in a scam, take action which may include notifying regulators and the FBI, lodging a complaint at www.ftc.gov, and if it involves email solicitation or spoofing, forwarding email to spam@uce.gov • If a customer's account has been compromised, take action (described in a section that follows) • Include Identity Theft Prevention Program in the annual report to CEO (see the chapter <i>SUPERVISORY SYSTEM, PROCEDURES AND CONTROLS</i>), reporting: <ul style="list-style-type: none"> ○ Effectiveness of the policies and procedures in addressing the risk of identity theft ○ Third party provider arrangements ○ Significant incidents involving identity theft and management's response ○ Recommendations for material changes to the Program • Review third party providers (including clearing firms) for adequacy of identity theft programs <ul style="list-style-type: none"> ○ Contractually require them to have policies and procedures to detect Red Flags included in Firm policies and report them to SAMCO and/or take appropriate steps of their own to prevent/mitigate identity theft • Send confirmation of address change to the customer's old address when a change of address is made (see the section <i>Change Of Addresses On Accounts</i> in the chapter <i>FINANCIAL AND OPERATIONS PROCEDURES</i>) • Training: <ul style="list-style-type: none"> ○ Include identity theft in AML training ○ Develop training, identify target employees, and administer training
Record	<ul style="list-style-type: none"> • Policies and procedures and revisions • Reviews of orders and transactions with record of action taken • Red flags identified and record of action taken • Annual testing of procedures (see <i>SUPERVISORY SYSTEM, PROCEDURES AND CONTROLS</i>) • Annual report to CEO (see <i>SUPERVISORY SYSTEM, PROCEDURES AND CONTROLS</i>) • Confirmation that third party providers (including clearing firms) have adequate ITPPs and include in the contracts with third parties • Records of training including subjects included, date, who administered and who attended

7.15.1 Introduction

Under the Federal Trade Commission's (FTC's) FACT Act (also referred to as the Red Flags Rule), financial institutions with "covered accounts" are required to establish an Identity Theft Prevention Program (ITPP) to prevent, detect, and act on the theft of customers' identity. "Covered accounts" include accounts for individuals (vs. institutions) and accounts where credit is extended. Because SAMCO has individuals as customers or it offers credit to customers, SAMCO is subject to the FACT Act requirements.

SAMCO has established an ITPP which incorporates the Customer Identification Program as a tool for recognizing identity theft. Related policies and procedures include the responsibilities of all employees (and designated supervisors, in particular) as listed below. The chapter is in upper case and the section is in lower case.

- *GENERAL EMPLOYEE POLICIES - Money Laundering*
- *GENERAL EMPLOYEE POLICIES - Identity Theft*
- *COMMUNICATIONS WITH THE PUBLIC - Customer Privacy Policies And Procedures*
- *FINANCIAL AND OPERATIONS PROCEDURES - Risk Management - Firm Computers And Computerized Data*
- *ANTI-MONEY LAUNDERING (AML) PROGRAM - Customer Identification Program (CIP)*
- *ACCOUNTS - Customer Account Information*
- *ACCOUNTS - Identity Theft*

7.15.2 Establishment, Administration, And Updates Of The ITPP

The Board or a Board committee (or CEO if no Board exists) has approved the ITPP and receives updates from the AML Compliance Officer. The ITPP will be included in the annual report to the CEO (see the chapter *SUPERVISORY SYSTEM, PROCEDURES AND CONTROL* and the section *Annual Report to CEO*).

The AML Compliance Officer is responsible for:

- Establishing the program and obtaining Board, Board committee, or CEO approval
- Updating the program when necessary and communicating changes to appropriate personnel including the Board/CEO
- Administering the program including:
 - identifying supervisors' responsibilities and communicating those responsibilities to respective supervisors
 - monitoring regulatory changes and industry trends
- Establishing training for supervisors and RRs
- Maintaining records of the ITPP and any updates
- Maintaining records of training or delegation of training to supervisors; records include subjects covered, who administered the training, date of training, and who attended

7.15.3 Red Flags

The ITPP is based on identifying "red flags" that indicate identity theft may have occurred. This section describes SAMCO's methods of identifying red flags and responding to them. Regulators have identified red flags as potential indicators of identity theft. All of the red flags may not apply to SAMCO because of the nature of its business and types of customers. The following section identifies red flags, how they are detected, and potential action when red flags are identified.

The following factors were considered in establishing the ITPP and are assessed in annual reviews of the program in determining identity theft risks at SAMCO:

- Types of accounts offered by SAMCO
- Methods to open and access accounts
- Prior experience with identity theft
- Regulatory/industry releases and industry experience with identity theft
- Technology/reports available to identify red flags
- Use of third parties (including clearing firms) for processing accounts and/or transactions
- Sources of red flags including: reports from credit agencies; suspicious documents; suspicious personal identifying information; suspicious account activity; and notice from other sources, including the customer himself/herself

This list is not intended to be an exhaustive or mandatory list of items but provides guidelines for where risks may appear. Some areas may not be relevant to SAMCO's business at a particular time.

7.15.4 Identifying And Responding To Red Flags

The following chart identifies identity theft red flags and potential responses which depend on the nature and seriousness of the red flags.

Red Flag	Action
Category: Alerts, Notifications or Warnings from a Consumer Credit Reporting Agency	
1. A fraud or active duty alert is included on a consumer credit report.	Verify that the fraud or active duty alert covers an applicant or customer and review the allegations in the alert.
2. A notice of credit freeze is given in response to a request for a consumer credit report.	Verify that the credit freeze covers an applicant or customer and review the freeze.
3. A notice of address or other discrepancy is provided by a consumer credit reporting agency.	Verify that the notice of address or other discrepancy covers an applicant or customer and review the address discrepancy.
4. A consumer credit report shows a pattern inconsistent with the person's history, such as a big increase in the volume of inquiries or use of credit, especially on new accounts; an unusual number of recently established credit relationships; or an account closed because of an abuse of account privileges.	Verify that the consumer credit report covers an applicant or customer, and review the degree of inconsistency with prior history.
Category: Suspicious Documents	
5. Identification presented looks altered or forged.	Scrutinize identification presented in person to make sure it is not altered or forged.
6. The identification presenter does not look like the identification's photograph or physical description.	Determine that the photograph and the physical description on the identification match the person presenting it.
7. Information on the identification differs from what the identification presenter is saying.	Determine that the identification and the statements of the person presenting it are consistent.
8. Information on the identification does not match other information our firm has on file for the presenter, like the original account application, signature card or a recent check.	Determine that the identification presented and other information we have on file from the account are consistent.
9. The application looks like it has been altered, forged or torn up and reassembled.	Scrutinize each application to identify alterations or forgery (for example, a form that has been cut up and reassembled).
Category: Suspicious Personal Identifying Information	
10. Inconsistencies exist between the information presented and other things we know about the presenter or can find out by checking readily available external sources, such as an address that does not match a consumer credit report, or the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA's) Death Master File.	Check personal identifying information to determine that the SSN given has been issued but is not listed on the SSA's Master Death File. If we receive a consumer credit report, check to see if the addresses on the application and the consumer report match.
11. Inconsistencies exist in the information that the customer gives us, such as a date of birth that does not fall within the number range on the	Check personal identifying information to confirm that it is internally consistent by comparing the date of birth to see that it falls

SSA's issuance tables.	within the number range on the SSA's issuance tables.
12. Personal identifying information presented has been used on an account our firm knows was fraudulent.	Compare the information presented with addresses and phone numbers on accounts or applications that were reported to be fraudulent.
13. Personal identifying information presented suggests fraud, such as an address that is fictitious, a mail drop, or a prison; or a phone number is invalid, or is for a pager or answering service.	Validate the information presented when opening an account by looking up addresses on the Internet to ensure they are real and not for a mail drop or a prison; call the phone numbers given to ensure they are valid and not for pagers or answering services.
14. The SSN presented was used by someone else opening an account or other customers.	Compare the SSNs presented to see if they were given by others opening accounts or other customers.
15. The address or telephone number presented has been used by many other people opening accounts or other customers.	Compare address and telephone number information to see if they were used by other applicants and customers.
16. A person who omits required information on an application or other form does not provide it when told it is incomplete.	Track when applicants or customers have not responded to requests for required information and follow up with the applicants or customers to determine why they have not responded.
17. Inconsistencies exist between what is presented and what our firm has on file.	Verify key items from the data presented with information we have on file.
18. A person making an account application or seeking access cannot provide authenticating information beyond what would be found in a wallet or consumer credit report, or cannot answer a challenge question.	Authenticate identities for existing customers by asking challenge questions that have been prearranged with the customer and for applicants or customers by asking questions that require information beyond what is readily available from a wallet or a consumer credit report.
Category: Suspicious Account Activity	
19. Soon after SAMCO gets a change of address request for an account, we are asked to add additional access means (such as debit cards or checks) or authorized users for the account.	Operations (or the clearing firm) verifies change of address requests by sending a notice of the change to both the new and old addresses so the customer will learn of any unauthorized changes and can notify SAMCO.
20. A new account exhibits fraud patterns, such as where a first payment is not made or only the first payment is made, or the use of credit for cash advances and securities easily converted into cash.	Review new account activity to ensure that first and subsequent payments are made, and that credit is primarily used for other than cash advances and securities easily converted into cash.
21. An account develops new patterns of activity, such as nonpayment inconsistent with prior history, a material increase in credit use, or a material change in spending or electronic fund transfers.	Review accounts on at least a monthly basis and check for suspicious new patterns of activity such as nonpayment, a large increase in credit use, or a big change in spending or electronic fund transfers.
22. An account that is inactive for a long time is suddenly used again.	Review our accounts on at least a monthly basis to see if long inactive accounts become very active.
23. Mail SAMCO sends to a customer is returned repeatedly as undeliverable even	Note any returned mail for an account and immediately check the account's activity.

though the account remains active.	
24. We learn that a customer is not getting his or her paper account statements.	Record on the account any report that the customer is not receiving paper statements and immediately investigate them.
25. We are notified that there are unauthorized charges or transactions to the account.	Verify if the notification is legitimate and involves a firm account, and then investigate the report.
Category: Notice From Other Sources	
26. An outside agency, law enforcement, a clearing firm, or other source notifies SAMCO that an account has been opened or used fraudulently.	Verify that the notification is legitimate and involves a Firm account, and then investigate the report.
27. SAMCO is notified of potential unauthorized access to customer personal information due to data loss from an outside provider or a breach of an outside provider's data.	In consultation with the outside provider, determine the extent of the loss of data or breach of the provider's systems and determine action to be taken which may include notification of customers and notification of regulatory authorities including states depending on state requirements.
28. Notice from a customer of the loss of information (e.g., loss of wallet, birth certificate, etc.).	Contact the customer to learn the details of the unauthorized access to determine if other steps are warranted.

7.15.5 Compromised Accounts

[FINRA Checklist for Compromised Accounts: <http://www.finra.org/Industry/Issues/CustomerInformationProtection/p117443>]

If an unauthorized person may have gained entry or attempted entry to a customer's account, the AML Compliance Officer will take the following actions, depending on the nature and scope of the intrusion.

- Monitor, limit, or temporarily suspend activity in the account
- Contact the customer using CIP information on file for him/her, describe what has been found, and verify that there has been an attempted or actual identity theft
- Determine if there is a heightened risk of ease of access such as a customer's lost wallet, mail theft, a data security incident, or the customer gave account information to an imposter claiming to represent SAMCO or the customer gave information to a fraudulent web site
- Check similar accounts where there may be unauthorized access
- Collect incident information including (if available):
 - Firm information (both introducing and clearing firms: Firm name, CRD number, contact name and telephone number)
 - Dates and times of activity
 - Securities involved (name and symbol)
 - Details of trades or unexecuted orders
 - Details of wire transfer activity
 - Customer accounts affected by the activity including name and account number
 - Whether the customer will be reimbursed and by whom
- Alert other appropriate Firm personnel to be aware of unusual activity in other customer accounts and notify the AML Compliance Officer of any such incidences
- Identify, to the extent possible, the cause of the account intrusion (*i.e.*, SAMCO's system was compromised; individual account was hacked); whether the customer has been subject to identity theft; whether intrusion is limited to one account or whether it involves multiple accounts
- Notify clearing firm, if applicable

- Contact the SEC, FINRA, and state regulators
- If appropriate, contact law enforcement such as the FBI or the U.S. Postal Inspector, if mail is involved
- Determine whether SAMCO must provide a specific type of notification to the customer or others under state law
- Determine whether a SAR should be filed
- Review SAMCO's insurance policy which may require timely notice or prior consent for any settlement
- Provide customer assistance to minimize the impact of potential or actual identity theft, as applicable and determined by the AML Compliance Officer:
 - Consider changing passwords, security codes or other ways to access threatened accounts
 - Offer to close the account and reopen with a new account number
 - Consider not collecting on the account or selling it to a debt collector
 - Advise the customer to go to the FTC Identity Theft Web Site (<http://www.ftc.gov/bcp/edu/microsites/idtheft>); calling the FTC's Identity Theft Hotline (877-438-4338); or writing the Identity Theft Clearinghouse (FTC, 6000 Pennsylvania Avenue, NW, Washington, D.C. 20580)

7.16 Due Diligence For Correspondent And Private Banking Accounts

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart F; USA PATRIOT Act Section 312 and 313; FinCEN Fact Sheet (<http://www.fincen.gov/312factsheet.pdf>); FinCEN guidance regarding Rule 312 due diligence requirements: <http://www.sia.com/moneyLaundering/pdf/SIA-FIAfromFinCEN05-02-06.pdf>]

Responsibility	<ul style="list-style-type: none"> • AML Compliance Officer
Resources	<ul style="list-style-type: none"> • New account application • Foreign bank certification • Information about a foreign bank subsequent to opening that indicates it is a foreign shell bank where an account may not be maintained
Frequency	<ul style="list-style-type: none"> • As required when accounts are opened • Monthly - review of accounts identified for due diligence reviews
Action	<ul style="list-style-type: none"> • Conduct due diligence for correspondent and private banking accounts • Review selected accounts for potential money laundering activity and, if potential activities are identified, take corrective action which may include: <ul style="list-style-type: none"> ○ Restricting activity in the account ○ Closing the account ○ Filing an SAR • For foreign bank accounts: <ul style="list-style-type: none"> ○ Review certification to determine: <ul style="list-style-type: none"> ▪ All required information is included ▪ Inconsistencies (<i>i.e.</i>, location of the foreign bank's regulated affiliate is consistent with the designated banking authority that supervises the foreign bank and its regulated affiliate) ○ Ensure procedures are in place to restrict transactions in accounts that do not provide certification within 30 days of opening the account ○ Close existing prohibited accounts for foreign shell banks

	<ul style="list-style-type: none"> ○ Review re-certifications ○ Ensure procedures are in place to re-certify foreign banks within three years of original certification
Record	<ul style="list-style-type: none"> • Record of the AML Officer's review is maintained in new account records on the applicable form: <ul style="list-style-type: none"> ○ New account application ○ Certification form ○ Re-certification form • Records of account reviews including corrective action taken • Records of closing or restricting accounts are retained with new account records

Due diligence requirements apply when opening and handling correspondent and private banking accounts that are maintained in the U.S. for non-U.S. persons. "Enhanced due diligence" is required for:

- Correspondent accounts for foreign banks in jurisdictions of money laundering concern or operating under an off-shore license
- Private banking accounts for senior foreign political figures

The purpose of these requirements is to detect and report known or suspected money laundering activity.

7.16.1 Definitions

Correspondent account: Includes any account established for a foreign financial institution to receive deposits from, or to make payments or other disbursements on behalf of, the foreign institution, or to handle other financial transactions related to such foreign financial institution. This type of account presumes a formal relationship through which the financial institution provides regular services.

Private banking account: A private banking account is an account that is established or maintained for the benefit of one or more non-U.S. persons, requires minimum aggregate deposit of funds or other assets of not less than \$1,000,000, and is assigned to a bank employee who is a liaison between the financial institution and the non-U.S. person. If the account otherwise satisfies the definition but the institution does **not** require a minimum balance of \$1,000,000, the account does not qualify as a private banking account.

Senior foreign political figure ("politically exposed person") includes:

- a current or former senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government, whether or not they are or were elected officials
- a senior official of a major foreign political party
- a senior executive of a foreign government-owned commercial enterprise (Senior executives are individuals with substantial authority over policy, operations, or the use of government-owned resources.)
- immediate family members of the above, and those who are widely and publicly known (or actually known) close associates of a senior foreign political figure
- a corporation, business, or other entity formed by or for the benefit of one of the above individuals
- a person "widely and publicly known" as a close associate of such a person

Proceeds of foreign corruption: any asset acquired by, through, or on behalf of a senior foreign political figure through misappropriation, theft, or embezzlement of public funds, the unlawful

conversion of property of a foreign government, or through acts of bribery or extortion, and include any other property into which any such assets have been transformed or converted.

Foreign bank: defined under the Bank Secrecy Act as a bank organized under foreign law, or an agency, branch, or bank office located outside the United States. The term does not include an agent, agency, branch or office within the U.S. of a bank organized under foreign law.

Foreign shell bank: a foreign bank without a physical presence in any country.

"Owner" of a foreign bank for purposes of enhanced due diligence: Any person who directly or indirectly owns, controls, or has the power to vote 10% or more of any class of securities of the bank.

Payable-through account: A correspondent account maintained by a covered financial institution for a foreign bank by means of which the foreign bank permits its customers to engage, either directly or through a subaccount, in banking activities usual in connection with the business of banking in the U.S.

Regulated affiliate: a foreign shell bank that (1) is an affiliate of a depository institution, credit union, or foreign bank that maintains a physical presence in the United States or a foreign country, as applicable; and (2) is subject to supervision by a banking authority in the foreign country regulating such affiliated depository institution, credit union, or foreign bank.

7.16.2 Due Diligence For Correspondent Accounts For Foreign Financial Institutions

Due diligence requirements apply to the following types of foreign financial institutions:

- Foreign bank
- Foreign branch of a U.S. Bank
- A business organized under a foreign law that, if located in the U.S., would be a securities broker-dealer, futures commission merchant, introducing broker in commodities, or a mutual fund
- A money transmitter or currency exchanger organized under foreign law

The Dept. of Treasury has established the following minimum due diligence requirements:

- determine whether the account is subject to enhanced due diligence
- assess the money laundering risk posed, based on risk factors. Potential risk factors include:
 - the nature of the foreign financial institution's business and the markets it serves
 - the type, purpose, and anticipated activity of the correspondent account
 - the nature and duration of SAMCO's relationship with the foreign financial institution
 - the AML and supervisory regime in which the foreign financial institution is chartered or licensed
 - information known or reasonably available to SAMCO about the foreign financial institution's AML record
- apply risk-based policies, procedures and controls to each account, including periodic review of activity

Factors considered in determining due diligence include:

- nature of services provided to the account
- length of relationship
- the AML supervisory regime in the account's home country
- any information known or reasonably available about the account's AML record

Due diligence procedures include the following:

Correspondent accounts for foreign financial institutions are forwarded to the AML Compliance Officer, at the time of opening, for review.

- Review the account's home country vs. OFAC lists of jurisdictions of money laundering concern and blocked persons.
 - If identified on an OFAC list, report the account and close it.
- Review new account information about the account including source of revenue and assets, whether the person/entity has existing accounts with SAMCO, length of time the RR has known the account, who referred the account, and other available information about account background and how the account came to SAMCO.
- Conduct a risk-based assessment considering factors listed above.
- If there is inadequate information or due diligence procedures cannot be performed, refuse to open the account or close an existing account.
 - File a SAR, if appropriate.
- If the account is approved for opening, determine whether ongoing review is necessary.
 - If ongoing review is appropriate, establish duplicate statements or another method for review of account activity by the AML Officer.
 - Review will include identifying patterns of securities transactions and securities/money transfers that may be indicative of money laundering activity, and report such activity if necessary and close the account.

7.16.2.1 Enhanced Due Diligence For Some Foreign Banks

Enhanced due diligence is required for a correspondent account for a foreign bank that is operating:

- under an offshore license;
- under a license issued by a country that has been designated as being non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the U.S. is a member and with which the U.S. concurs regarding the designation; or
- under a license issued by a country designated by the Secretary of the Treasury as warranting special measures due to money laundering concerns.

Such accounts are subject to risk-based enhanced due diligence, including the following:

- Compliance is responsible for identifying and monitoring such accounts.
- If the bank's shares are not publicly traded, identify the owners of the bank and verify they do not appear on U.S. lists of restricted individuals or companies.
- Obtain and consider information about the bank's AML program to assess money laundering risk.
- Obtain information from the bank about the identity of any person with authority to direct transactions through any correspondent account that is a payable-through account and the sources and beneficial owner of funds or other assets in the payable-through account.
- Determine whether the foreign bank for which the correspondent account is established or maintained in turn maintains correspondent accounts for other foreign banks that use the foreign correspondent account established or maintained by SAMCO and, if so, take reasonable steps to obtain information relevant to assess and mitigate money laundering risks associated with the foreign bank's correspondent accounts for other foreign banks, including, as appropriate, the identity of those foreign banks.
- Monitor such accounts for potential money laundering, either manually or electronically depending on available information.
- Report the account, upon initial review or in the course of monitoring, if necessary.

If enhanced due diligence cannot be performed, the account will be not be opened, trading will be suspended, a suspicious activity report will be filed, and/or the account will be closed.

7.16.2.2 Prohibition Against Correspondent Accounts For Foreign Shell Banks

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart F; USA PATRIOT Act Section 313]

SAMCO is prohibited from establishing, maintaining, administering, or managing a correspondent account in the United States for an unregulated foreign shell bank. The prohibition does not apply to a foreign shell bank that is a regulated affiliate. If an account is inadvertently opened for an unregulated foreign shell bank, the AML Compliance Officer must be notified and the account will be immediately closed.

7.16.2.3 Foreign Bank Certification

[FinCEN Frequently Asked Questions re Certification: <http://www.fincen.gov/faqsguidance.pdf>]

When opening an account for a foreign bank, SAMCO is obligated to ensure the bank is not a foreign shell bank and must obtain information about the foreign bank's owners and an agent for service of process. The bank must complete the Foreign Bank Certification which must be submitted to the AML Compliance Officer with a copy of the new account application for review. Every three years the bank is also required to re-certify the information filed with SAMCO.

7.16.2.4 Special Measures

[USA PATRIOT Act Section 311; Bank Secrecy Act 31 CFR Chapter X Part 1010 Subpart F; FINRA Notice to Members 06-41; FinCEN information on all special measures issued: http://www.fincen.gov/reg_section311.html]

Some foreign jurisdictions, foreign financial institutions, international transactions, or types of accounts are designated to be of "primary money laundering concern" by the Secretary of the Treasury. This designation obligates SAMCO to take certain "special measures" against the primary money laundering concern. The Secretary of Treasury announces when an entity is considered to be a primary money laundering concern. These special measures include:

- A prohibition against opening or maintaining a correspondent account in the U.S. for or on behalf of the primary money laundering concern including at the time of announcement, review of existing account records to identify any prohibited accounts
- Notification to correspondent account holders that the account may not be used to provide the primary money laundering concern with access to SAMCO [sample notification is included in Notice to Members 06-41 and may be transmitted by a one-time notice by mail, fax, or e-mail or by including the information in the next regularly occurring transmittal to the account, such as an account statement]
- Reasonable steps to identify an indirect use of correspondent accounts by the primary money laundering concern by review of transaction-based records

The clearing firm is responsible for complying with special measures including notification of correspondent accounts and retaining records of compliance.

7.16.3 Due Diligence For Private Banking Accounts

[Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart F]

Private banking accounts:

- include accounts established for a non-U.S. beneficial owner.
- include accounts where the beneficial owner is an individual:
 - who has a level of control over, or entitlement to, the funds in the account
 - who directly or indirectly controls, directs, or manages the account
 - for whom an account is established, maintained, or administered in the U.S.
- exclude accounts for hedge funds (and other pooled vehicles) and corporations (that are not personal investment companies ["PICs"]).

- include accounts for PICs and trusts for the benefit of individual owners.

Requirements for due diligence:

- Determine the identity of all nominal and beneficial owners of the private banking account.
- Determine the purpose and expected use of the account.
- Determine whether any such owner is a senior foreign political official.
- Determine the source(s) of funds deposited into the private banking account and the purpose and expected use of the account.
- Review the account activity:
 - to ensure consistency with information about the account.
 - to report suspected money laundering activity.

Factors considered in determining due diligence include:

- Is the client from a jurisdiction identified by the federal government as a jurisdiction subject to OFAC restrictions or as having weak AML controls?
- Is the customer's business cash intensive?

SAMCO cannot rely on foreign institutions to perform due diligence for private banking accounts, and due diligence obligations are ongoing. If appropriate due diligence cannot be performed for the account, the account will be closed.

7.16.4 Enhanced Scrutiny For Accounts Of Senior Foreign Political Figures

Accounts for senior foreign political figures (including persons and entities defined in this section) are subject to enhanced scrutiny:

Prior to opening, the account is referred to the AML Officer for review and approval.

- Review the account's home country vs. OFAC lists of jurisdictions of money laundering concern and blocked persons.
 - If identified on an OFAC list, report the account and close it.
- Review new account information about the account including employment history, sources of income and assets, whether the person/entity has existing accounts with SAMCO, length of time the RR has known the account, who referred the account, and other available information about account background of the account and how the account came to SAMCO.
- If there is inadequate information or due diligence procedures cannot be performed, refuse to open the account or close an existing account.
 - File a SAR, if appropriate.
- If the account is approved for opening, determine whether ongoing review is necessary.
 - If ongoing review is appropriate, establish duplicate statements or another method for review of account activity by the AML Officer.
 - Review will include identifying patterns of securities transactions and securities/money transfers that may be indicative of money laundering activity, and report such activity if necessary and close the account.

7.17 Shell Companies

[FinCEN advisory on shell companies: http://www.fincen.gov/AdvisoryOnShells_FINAL.pdf]

Shell companies can represent a potential money laundering risk. Most shell companies are formed for legitimate business reasons, but some have been used for illicit purposes.

"Shell company" refers to non-publicly traded corporations, limited liability companies (LLCs), and trusts that typically have no physical presence (other than a mailing address) and generate little or no independent economic value. Legitimate purposes including holding stock or intangible assets of another business entity (such as subsidiary company shares) but are not engaged in active business

operations or facilitating domestic and cross-border currency and asset transfers and corporate mergers. State laws allow shell companies to obscure company structure, ownership, and activities, so there is little transparency to enable SAMCO to understand with whom they are dealing.

Agents that act as intermediaries or nominee incorporation services (NIS) can play a central role in creating, maintaining, and supporting shell companies. Some agents and NIS firms also provide individuals and businesses with nominee services that preserve the anonymity of underlying officers, directors, and stockholders.

Shell companies are subject to review which may include:

- Checking accounts and owners (if information is available) against OFAC restrictions (applies to all accounts)
- Obtaining information about underlying owners
- Obtaining assurances from the shell company representative that principals have been screened

8 INSIDER TRADING

[Insider Trading and Securities Fraud Enforcement Act of 1988; SEC Securities Exchange Act of 1934 Rule 10b-5; FINRA Notice to Members 89-5; SEC Staff Summary Report on Examinations of Information Barriers: <http://www.sec.gov/about/offices/ocie/informationbarriers.pdf>; SEC Guidance on the use of company web sites (application of Regulation FD): <http://www.sec.gov/rules/interp/2008/34-58288.pdf>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance
Resources	<ul style="list-style-type: none"> • Daily Transaction Report • Employee transactions (see the section <i>Employee, Employee-Related and Proprietary Trading</i>) • Customer and proprietary and affiliate asset management (if applicable) transactions • Restricted and watch lists • Inquiries from regulators • Transactions in securities on SAMCO's Watch or Restricted Lists (see the sections <i>Watch List</i> and <i>Restricted List</i>) • Questions or transactions referred by managers or other firm personnel • Access controls including key card controls, computer networks
Frequency	<ul style="list-style-type: none"> • Daily and as required • Monthly - Review of controlled access • Annually and ongoing - develop and provide training
Action	<ul style="list-style-type: none"> • Supervisors reviewing trades: refer questioned trades to Compliance • Compliance will review the referred transaction and take appropriate action which may include: <ul style="list-style-type: none"> ○ Determination if further information is necessary ○ Consultation with RR or other firm personnel regarding the nature of the transaction(s) including reason for transaction, solicited vs. unsolicited ○ Review of other transactions by the same customer and/or RR ○ Consultation with in-house or outside counsel ○ Referral of transaction(s) to appropriate regulator • Compliance <ul style="list-style-type: none"> ○ reviews transactions (employee/customer/proprietary/affiliate asset management) against restricted and watch lists to identify potential breaches ○ reviews access controls (key cards, network controls) for unauthorized access ○ investigates potential breaches ○ takes corrective action which may include: <ul style="list-style-type: none"> ▪ Contact with affected personnel ▪ Consultation with outside counsel ▪ Disciplinary action ▪ Added training ▪ Referral to regulators ○ Develop and provide training for all personnel and particularly for those with access to inside information

<p>Record</p>	<ul style="list-style-type: none"> • Initials on Daily Transaction Report by the designated reviewer • Compliance's review of transactions documented to include who conducted the review; when reviewed; identification of the transaction(s) reviewed; copies of the records used to conduct the review; and notation of action taken • Compliance review of controlled access and corrective action taken, if applicable • Compliance and supervisors' records of employee training on insider trading
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8.1 Insider Trading Policies And Procedures

Broker-dealers are required to establish, maintain, and enforce policies and procedures to prevent the misuse of material non-public information ("inside information"). These requirements are included in the Insider Trading and Securities Fraud Enforcement Act of 1988. SAMCO has established policies and procedures reasonably designed to prevent the misuse of inside information considering the Firm's business, structure, size and other relevant factors.

At the time of hire, employees are provided with the *Firm Policy Memorandum Regarding Insider Trading* included in this chapter. Updates to this policy are provided by Compliance when required.

8.2 Prohibition Against Acting On Or Disclosing Inside Information

SAMCO policy prohibits employees and associated persons from effecting securities transactions while in the possession of material, non-public information. Employees are also prohibited from disclosing such information to others. The prohibition against insider trading applies not only to the security to which the inside information directly relates, but also to related securities, such as options or convertible securities.

If employees receive inside information, they are prohibited from trading on that information, whether for the account of SAMCO or any customer, or their own account, any accounts in which they have a direct or indirect beneficial interest (including accounts for family members) or any other account over which they have control, discretionary authority or power of attorney.

8.3 Tippees Are Insiders

An employee may, depending on the circumstances, become an "insider" or "tippee" when obtaining **apparently** material, non-public information by happenstance, including information derived from social situations, business gatherings, overheard conversations, "tips" from "insiders," or other third parties. In these situations, the employee must, **unless Compliance advises otherwise**, treat the information as inside information and comply with all of the policies on insider trading.

8.4 Misuse Constitutes Fraud

The misuse of material, nonpublic or "inside" information constitutes fraud, a term broadly defined under federal securities laws. Engaging in fraud is subject to civil and criminal penalties (including imprisonment), SEC administrative actions, disgorgement of profits, penalties from exchanges, and dismissal by SAMCO. There are no circumstances where any person becomes aware of inside information, for whatever purpose, may use that information to trade for personal benefit, for SAMCO's benefit, or for the benefit of another. If any employee believes he or she has received inside information, he or she should immediately advise their supervisor or Compliance.

8.5 Annual Certification

Employees and associated persons are required to annually certify their knowledge of and compliance with SAMCO's insider trading policy. This certification is included in the Annual Certification form.

8.6 Firm Policy Memorandum Regarding Insider Trading

This policy memorandum is intended to provide information and guidance concerning the restrictions on insider trading, which is an enforcement priority of the Securities and Exchange Commission and the Department of Justice. It also explains policies adopted by SAMCO to prevent fraudulent or deceptive practices relating to trading on material, non-public information ("insider trading"). Trading in securities on the basis of material, non-public information ("inside information") is prohibited and contrary to firm policy. The penalties for insider trading can be considerable, including loss of profits plus treble damages, criminal sanctions including incarceration, loss of employment and permanent bar from the securities industry. This policy applies to all associates of SAMCO. Specific departments of SAMCO may have insider trading policies that supplement this policy.

READ THIS MEMORANDUM VERY CAREFULLY. You will be asked to sign a statement affirming that you have read and understand the policies set forth herein and that you will abide by them.

THE PROHIBITION

The prohibition against insider trading includes the following: if you are in possession of material non-public information about a company or the market for a company's securities, you must either publicly disclose the information to the marketplace or refrain from trading. Generally, disclosure is not an option and the effect is to require an individual to refrain from trading. You also may not communicate inside information to a second person who has no official 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. In addition, 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 buy-outs, mergers, sales of subsidiaries, significant earnings changes and other major corporate events.

Information is non-public when it has not been disseminated in a 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 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 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 non-public information by unlawful means or by lawfully obtaining such information and improperly using it. This is known as misappropriation. If you receive material, non-public information as part of your legitimate business dealings on behalf of SAMCO or its customers and you use that information to trade in securities or if you transmit that information to another person for purposes of trading in securities (so-called "tipping"), you would likely be guilty of insider trading. Insider trading liability may also be derivative. A person who has obtained inside information (so-called "tippee") from a person who has breached a duty or who has misappropriated information may also be held liable.

The foregoing is just a synopsis of the insider trading prohibition. Because the law in this area is complex, SAMCO has adopted the following guidelines which are designed to prevent violations of the insider trading rules.

WHEN SAMCO IS AN INSIDER

SAMCO may be deemed an insider when it comes into possession of inside information through its various activities such as investment banking and research. Research analysts may become insiders (or tippees) upon receiving inside information from a company officer, director or employee. In addition, the intention to update or downgrade a research recommendation might be material information and should not be disclosed, prior to public dissemination, to anyone outside the Research Department (and in some instances to some within the Research Department) unless there is a need to know the information.

SAMCO will remain an insider as long as it has inside information, regardless whether the prospective banking client decides to engage another investment banking firm or whether SAMCO declines to accept the proposed engagement.

REGULATION FD (FAIR DISCLOSURE)

SEC Regulation FD governs the release by public companies of information that may reasonably be expected to affect the market price of securities issued by the public company. While obligations under the Regulation fall primarily on public companies, it is equally important for employees of SAMCO to be aware of the requirements and to act appropriately if an employee becomes privy to inside information about the company. Further explanations for research personnel and investment bankers are included in the chapters *INVESTMENT BANKING* and *RESEARCH*.

The goal of the Regulation is to create a "level playing field" so that the dissemination of information that is reasonably likely to affect the market price of a security is released simultaneously to all investors. In general, the issuer, its executive officers, directors, investor relations personnel or other employees with similar duties are prohibited from selectively disclosing material, nonpublic information to securities analysts, to other securities professionals, or to a shareholder when it is foreseeable that a recipient of such information will trade on the information. The Regulation requires action by the issuer if there is intentional or unintentional selective disclosure of such information.

Employees must not expect or seek to obtain, other than in the normal course of confidential investment banking activities, material non-public information from issuers and their employees.

GUIDELINES

TREATMENT OF CUSTOMER INFORMATION. SAMCO considers confidential all information concerning its customers including, by way of example, their financial condition, prospects, plans and proposals. The fact that we have been engaged by a company as well as the details of that engagement are also confidential. SAMCO's reputation is one of its most important assets. The misuse of customer information can damage that reputation as well as customer relationships.

WHAT TO DO IF YOU LEARN INSIDE INFORMATION. It is not illegal to learn inside information. SAMCO learns material non-public information from its customers and is permitted to use that information in a lawful manner to advise and assist them. It is, however, illegal for you to trade on such information or to pass it on 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 business (such as investment bankers who learn inside information when working on an engagement), contact Compliance immediately so that we may address the insider trading issues and preserve the integrity of SAMCO's activities. Do not trade on the information or discuss the possible inside information with any other person at SAMCO. If you become aware of a breach of these policies or of a leak of inside information, advise Compliance immediately.

INVESTIGATIONS OF TRADING ACTIVITIES. From time to time, the Exchanges, FINRA and the SEC request information from SAMCO concerning trading in specific securities. Requests for information should be referred directly to Compliance. 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. SAMCO may submit these affidavits to the Exchanges, FINRA or SEC.

STEPS YOU CAN TAKE TO PRESERVE THE CONFIDENTIALITY OF MATERIAL NON-PUBLIC INFORMATION.

If you are in a position within SAMCO to access inside information, the following are steps you must take to preserve the confidentiality of inside information:

1. Material inside information should be communicated only when there exists a justifiable reason to do so on a "need to know" basis inside or outside SAMCO. Before such information is communicated to persons within SAMCO, your department, or another person you believe needs to know, contact your department manager or Compliance.
2. Do not discuss confidential matters in elevators, hallways, restaurants, airplanes, taxicabs or any place where you can be overheard.
3. Do not leave sensitive memoranda on your desk or in other places where they can be read by others. Do not leave a computer terminal without exiting the file in which you were working.
4. Do not read confidential documents in public places or discard them where they can be retrieved by others. Do not carry confidential documents in an exposed manner.
5. On drafts of sensitive documents use code names or delete names to avoid identification of participants.
6. Do not discuss confidential business information with spouses, other relatives or friends.
7. Protect electronic information on laptops and other portable devices by encrypting confidential data.
8. Avoid even the appearance of impropriety. Serious repercussions may follow from insider trading and the law proscribing insider trading can change. Since it is often difficult to determine what constitutes insider trading, you should consult with Compliance whenever you have questions about this subject.

YOUR OWN SECURITIES TRADING. Firm policy is to require all employees to maintain their securities accounts at SAMCO except with the approval of Compliance. If you have an account outside of SAMCO and have not already done so, please advise Compliance immediately. This includes outside accounts in which you have a financial interest or direct the trading.

CONCLUSION

SAMCO has a vital interest in its reputation, the reputation of its associates, and in the integrity of the securities markets. Insider trading would destroy that reputation and integrity. SAMCO is committed to preventing insider trading and to punishing any employee who engages in this practice or fails to comply with the above steps designed to preserve confidentiality of inside information. These procedures are a vital part of SAMCO's compliance efforts and must be adhered to.

8.7 Employee, Employee-Related, And Proprietary Trading

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Daily Transaction Report• Confirmations/statements for employees' outside accounts
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Identify transactions in securities included on SAMCO's Restricted or Watch Lists (refer to sections on those procedures)
Record	<ul style="list-style-type: none">• Notations are included in Compliance's files regarding identified

	transactions including details of each trade, action taken and initials or signature of reviewer.
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Employee and proprietary trades are reviewed by Compliance for trades contrary to restrictions because of underwriting activities, other restrictions, and potential insider trading. This review includes review of employees' outside securities accounts to identify transactions in securities on SAMCO's Restricted List or Watch List.

8.8 Information Barrier Procedures

[FINRA Rule 5280; FINRA Notice to Members 91-45]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Information regarding confidential investment banking activities
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Investment Banking notifies Compliance regarding confidential investment banking activities Compliance: <ul style="list-style-type: none"> Maintain records of companies subject to investment banking (also see <i>Restricted List</i> and <i>Watch List</i>) Maintain records of employees brought "over the wall" including name, date brought over, and the company the subject of confidential activities Issue restrictions on the "over the wall" employee's activities (issuing research reports, trading in a particular security, <i>etc.</i>), as appropriate Obtain certifications from affected employees
Record	<ul style="list-style-type: none"> Compliance retains records of Restricted List and Watch List securities Compliance retains records of employees brought over the wall Certifications filed in employee's file in Compliance

8.8.1 Introduction

Information barriers (also known as "Chinese walls") are established within broker-dealers to prevent the flow of material, non-public information. SAMCO may obtain material, non-public information while engaging in investment banking activities. Effective procedures permit SAMCO to continue conducting research, trading, and other business activities while another department has knowledge of inside information affecting an issuer of securities. SAMCO has established procedures to isolate departments and/or employees with inside information and permit the conduct of business in other areas.

Barriers between trading and research also apply to advance non-public information about a pending research report or recommendation. Refer to the section *Contact Between Research And Trading Personnel* in the chapters *RESEARCH - EQUITY SECURITIES* and *RESEARCH - FIXED INCOME SECURITIES* for further information on this subject.

8.8.2 Departments Subject To Information Barrier Confidentiality Procedures

The following department(s) is (are) subject to SAMCO's Information Barrier confidentiality procedures:

- [departments]

Departments that obtain material, non-public information in the normal course of business must maintain the confidentiality of that information. Other departments potentially affected by inside information (Research, Trading, *etc.*) may continue to conduct normal activities unless they become aware of inside information, in which case they are required to immediately contact Compliance for guidance regarding future activities involving the subject company or companies.

8.8.3 Confidentiality Procedures

The designated supervisors of departments subject to SAMCO's confidentiality procedures are responsible for implementing and enforcing SAMCO's procedures to protect the confidentiality of actual or potential inside information. Many of these departments' activities are considered confidential and may only be shared with those outside the department on a need-to-know basis (see *Bringing An Employee Over the Wall* in this section). Some procedures for maintaining confidentiality include:

- Maintain all paper files in a locked and secured area.
- Limit access to computer files to only authorized persons with passwords to control access to the files.
- Employees of affected departments must refrain from discussing in public areas or with others outside the department (including family members, friends, *etc.*) any activities that are not publicly known.
- Use code names or delete names on sensitive drafts that identify projects or banking clients.
- Physical separation of employees of departments with access to inside information.

8.8.4 Access To Confidential Information Limited To Certain Employees

Access to actual or potential inside information obtained in the normal course of SAMCO's banking activities is limited to the following employees:

1. Employees within the respective banking department who need to know
2. SAMCO's chief compliance officer
3. SAMCO's general counsel
4. The Chief Executive Officer
5. Other employees brought "over the wall" in accordance with the procedure outlined in the next section

8.8.5 Bringing An Employee "Over the Wall"

There may be occasions where investment banking employees require information from an employee in research, sales, trading, or other business areas of SAMCO. Bringing an employee not employed in the investment banking department into confidential discussions is often termed bringing the employee "over the wall." Doing so may result in restrictions on research, trading, or other business of SAMCO because the employee is now in possession of material, non-public information and cannot continue to conduct his or her normal responsibilities. Because it is important to both maintain the confidentiality of inside information and consider carefully any action that might restrict SAMCO's ability to conduct its business, the manager (or manager's designee) of the investment banking department is required to contact Compliance before bringing another employee over the wall. Compliance will maintain a written record of the:

- date of the action
- name and department of the employee brought over the wall
- the name of the companies which are the subject of the investment banking activity that resulted in bringing the employee over the wall

- name of the person requesting access to the employee

Compliance will also make a determination whether further restrictions on research, trading, or other SAMCO activities are appropriate because of the action of bringing an employee over the wall.

8.8.6 Notification To Compliance

When SAMCO is engaged to provide investment banking services to an issuer, and that engagement may result in obtaining inside information, the designated supervisor is responsible for notifying Compliance of the engagement so that the issuer may be included on SAMCO's Watch or Restricted Lists, if appropriate. This includes notification of any "target" companies that may become part of the investment banking transaction. Refer to the chapter *CORPORATE FINANCE* for more information about activities affecting investment banking activities.

When SAMCO is engaged to provide municipal finance services to a municipal issuer regarding an advanced refunding, the designated supervisor is responsible for notifying Compliance so the issue may be included on SAMCO's Watch List.

8.8.7 Monitoring The Information Barrier

Compliance monitors trading activities in issues where SAMCO may be in possession of material, non-public information through the use of SAMCO's Watch or Restricted Lists. The sections *Restricted List* and *Watch List* further explain those procedures.

8.8.8 Certification By Affected Employees

Employees in departments subject to SAMCO's Information Barrier confidentiality procedures will be requested to certify, on an annual basis, that they have read and agree to abide by SAMCO's Information Barrier Procedures and Policy Regarding Insider Trading. The certifications will be maintained by the designated supervisor of the affected department.

8.8.9 Education And Training Of Employees

To ensure employees are familiar with SAMCO's Insider Trading policy SAMCO has established the following procedures:

- Employees receive SAMCO's Insider Trading policy upon hire and certify their receipt and understanding.
- Annually, employees complete SAMCO's Annual Certification which includes their acknowledgment of receipt and understanding of the Insider Trading policy.
- Employees in sensitive departments (investment banking) sign an attestation on an annual basis.
- When procedures are revised, employees will be notified by memorandum.
- Insider Trading is a subject periodically included in SAMCO's continuing education and compliance meeting programs.

8.9 Watch List

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Notification of confidential investment banking activities • Notification of pending material research reports/recommendations • Daily Transaction Report • Confirmations/statements for employees' outside accounts
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Maintain confidential Watch List

	<ul style="list-style-type: none"> Review transactions to identify trades in securities on the Watch List including debt and derivative securities For identified trades: <ul style="list-style-type: none"> Evaluate whether there is a potential breach in SAMCO's Information Barriers considering solicited vs. unsolicited; timing or unusual nature of transaction For pending research reports, determine whether trading activities must be limited or suspended depending on the materiality of the report/recommendation and its likely affect on market prices Take corrective action, if necessary
Record	<ul style="list-style-type: none"> Compliance maintains records of: <ul style="list-style-type: none"> Watch Lists, including the date and time a company is added or deleted The name of the person adding or deleting the company Identified trades, including date of review; accounts involved; underlying records possibly including memos, analyses, and statements/confirmations; summary of disposition; and initials/signature of reviewer.

Compliance will maintain a confidential Watch List which will include issues where SAMCO may be in possession of material, non-public information. This includes pending research recommendations which may affect the market price of the security (debt or equity) and its derivatives. The Watch List is available only to specified SAMCO personnel. Compliance will monitor daily trading to identify transactions in securities on the Watch List and take action as necessary. Compliance will also record the date and time when an issue is added to and removed from the Watch List.

8.10 Restricted List

[FINRA Notice to Members 91-45]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Notification from Investment Banking of underwritten issues Daily Transaction Report Confirmations/statements for employees' outside accounts
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Add to and delete companies from SAMCO's Restricted List Publish the Restricted List Review transactions to identify trades in restricted securities For identified trades: <ul style="list-style-type: none"> Determine whether solicited or unsolicited, if necessary Consider timing or unusual nature of transaction Take corrective action, if necessary, which may include cancellation of the transaction
Record	<ul style="list-style-type: none"> Compliance maintains records of: <ul style="list-style-type: none"> Restricted Lists, including the date and time a company is added or deleted

	<ul style="list-style-type: none"> ○ The name of the person adding or deleting the company ○ Identified trades, including date of review; accounts involved; underlying records possibly including memos, analyses, and statements/confirmations; summary of disposition; and initials/signature of reviewer.
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Compliance will maintain a Restricted List, when necessary, and publish the Restricted List to employees of SAMCO. The Restricted List may include the following:

- Underwritings where the securities are subject to restrictions under rules of the '34 Act including Regulation M (trading during a distribution)
- Issues where SAMCO has material, non-public information and SAMCO's investment banking involvement is publicly known and a restriction is appropriate
- Other restrictions determined by Compliance

Compliance will record the date and time when an issue is added to and removed from the Restricted List.

The type of restriction (*i.e.*, unsolicited orders only, cash transactions only, *etc.*) will be included on the Restricted List. Restrictions will generally include the following classes of securities of the issuer: common stock, preferred stock, options, and any security convertible into the common stock of the issuer. Debt issues will be included where appropriate.

Compliance will monitor daily trading to identify transactions in securities of issuers on the Restricted List and take action as necessary which may include inquiring regarding the solicited or unsolicited nature of transactions; canceling transactions; or taking other appropriate action.

8.11 10b5-1 Plans

[ABA guidance regarding 10b5-1 plans (<http://www.abanet.org/buslaw/blt/2008-05-06/parris.shtml>)]

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • RR regarding 10b5-1 plans
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review the request and the nature of the RR's participation/activity • Approve or disapprove • If approved, provide guidance regarding allowable activities/limitations
Record	<ul style="list-style-type: none"> • Requests, approval/disapproval, and communications regarding guidelines and allowable activities/limitations

Under Rule 10b-5 of the '34 Securities Exchange Act, a person can face insider trading liability for trading securities while aware of material, nonpublic information about the issuer or its securities. 10b-5 also provides some affirmative defenses or exceptions to this liability. One of the defenses for executives subject to knowledge of inside information is the use of a pre-existing trading plan (10b5-1 Plan) that complies with the requirements of 10b-5(c). This section only summarizes requirements and

guidelines regarding such plans. The executive at risk for 10b-5 liability is ultimately responsible for conferring with legal counsel and assuring himself or herself that such a plan is structured properly for avoidance of liability.

- The written plan must be adopted before the individual becomes aware of any material, nonpublic information.
- The plan must specify either the amount and price and dates of for purchases or sales or a written algorithm or computer program to determine the amount and price of the securities to be purchased or sold and the dates of purchases or sales.
- The plan must not permit the executive to exercise any subsequent influence over how, when, or whether purchases or sales would be effected under the plan.
- It must be demonstrable that purchases or sales actually took place under the plan.
- There cannot be alterations or deviations from the terms of the plan (changing the amount, price or timing) and cannot be alterations to a corresponding or hedging transaction or position.
- The plan must be entered into in good faith and not as part of a scheme to evade the prohibitions of 10b-5.

The plan may have to comply with the issuer's insider trading policies and procedures and public disclosure of such a plan may be necessary. Other guidelines may strengthen the defensibility of the plan and its execution including eliminating communications between the broker and the executive; avoiding multiple plans for one executive; and minimizing modifications to a plan which may call into question the good faith basis for establishing the plan.

Compliance must be contacted prior to engaging in transactions on behalf of a 10b5-1 plan.

9 ACCOUNTS

9.1 New Accounts

[SEC Securities Exchange Act of 1934 Rule 17a-3(a)(17); FINRA Rule 2090; FINRA Information Notice 10/21/08 New Account Application Template]

When opening and maintaining customer accounts, SAMCO and its RRs are obligated to use reasonable diligence to "know the customer" by obtaining essential facts about the customer and the authority of each person acting on behalf of the customer. Key requirements include the following:

- The new account application (which is designed to include information required by rules) must be complete prior to submission for approval. If the customer refuses to provide certain information, this must be indicated on the new account application.
- Where recommendations will be made to a non-institutional customer, account information includes the customer's financial status, tax status, investment objectives, and other information used or to be considered to determine the suitability of recommendations.
- The new account form must be signed by the RR opening the account.
- Under anti-money laundering requirements, the customer's identification must be verified.
- Required account documents, which vary depending on the type of account opened, must be obtained. Failure to obtain required documents may result in closure of the account.
- The customer's new account information will be sent to the customer for verification within 30 days of opening the account and every three years thereafter. When account information is changed, the changed information will be sent to the customer for verification within 30 days of the change.

This section provides an explanation of certain requirements that apply to new accounts.

9.1.1 Designation Of Accounts

[FINRA Rule 3250]

All accounts must be in the name of the customer except that an account may be designated by a number or symbol if the customer provides a written statement attesting to the ownership of the account.

9.1.2 Master Accounts And Sub-Accounts

[FINRA Regulatory Notice 10-18; SEC National Exam Risk Alert "Master/Sub-accounts:"
<http://www.sec.gov/about/offices/ocie/riskalert-mastersubaccounts.pdf>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• New master/sub-accounts
Frequency	<ul style="list-style-type: none">• As required when master/sub-accounts are established
Action	<ul style="list-style-type: none">• Determine, where possible, sub-account ownership including whether persons associated with the master account customers are not themselves customers• Conduct AML reviews including CIP reviews• Conduct ongoing surveillance of transactions to identify potential insider trading

Record	<ul style="list-style-type: none"> • Records of master and sub-account ownership • AML/CIP reviews (see AML chapter) • Review of transactions including record of action taken, if any
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Accounts are sometimes established as "master accounts" that represent multiple sub-accounts. This is a method often used by investment advisers which identify the beneficial ownership of each sub-account. There may be multiple underlying accounts on behalf of the underlying investors and sub-advisers may be authorized to effect transaction without the intermediation of the master account owner. Also, an individual or entity may set up sub-accounts for separate trading strategies or algorithms. Sub-accounts may be used by individual traders or groups of traders. The master account may be another broker-dealer or a partnership that provides its individual partners trading authority over separate sub-accounts.

When there are separate owners of the sub-accounts, SAMCO has an obligation to identify the beneficial owners, particularly to satisfy anti-money laundering requirements regarding customer identification (refer to the *Customer Identification Program* section of the *ANTI-MONEY LAUNDERING (AML) PROGRAM* chapter and the *Customer Due Diligence* section of the *ACCOUNTS* chapter).

In some instances the sub-accounts ownership identity is not disclosed to SAMCO. Investment advisers and others (such as firms in omnibus clearing arrangements) may use this method of opening accounts for legitimate business reasons. In these limited circumstances involving a registered investment adviser or a registered broker-dealer, SAMCO may rely on information provided to it by the adviser or the broker-dealer as to whether to treat a master/sub-account as having a single beneficial owner.

If SAMCO has actual notice that the sub-accounts have different owners (but does not know the identity of the owners) or if there are red flags that reasonably raise the issue of whether there are different owners, the RR and SAMCO are obligated to obtain the identity of the beneficial owners. Examples for SAMCO (or the RR) of red flags identified by FINRA that indicate there may be different owners include the following:

1. the sub-accounts are separately documented and/or receive separate reports;
2. the sub-accounts are addressed separately in terms of transaction, tax or other reporting;
3. the services provided to the sub-accounts engender separate surveillance and supervision of the sub-accounts for compliance with rules or for risk management purposes consistent with the review of separately owned accounts;
4. there are financial arrangements or transactions with the sub-accounts, or separate account terms, that reasonably raise questions concerning whether such accounts represent separate beneficial owners;
5. the sub-accounts incur charges for commissions, clearance and similar expenses, separately, based upon the activity only of that subject sub-account;
6. there is evidence of financial transactions or transfers of assets or cash balances that would reasonably evidence separate beneficial ownership of the sub-accounts;
7. SAMCO (or RR) is aware of or has access to a master account or like agreement that evidences that the sub-accounts have different beneficial owners;
8. there is evidence that a party maintaining a master/sub-account arrangement has interposed sub-accounts that have or are intended to have the effect of hiding the beneficial ownership interest; or
9. the number of sub-accounts maintained is so numerous as to reasonably raise questions concerning whether such accounts represent separate beneficial owners.
10. Items 3, 4, 5, 6, 8 and 9 above would not apply in the case of accounts opened by a registered BD or a bona fide investment adviser.

When an RR or SAMCO becomes aware of the identities of the beneficial owners of the sub-accounts, SAMCO will be required to recognize the sub-accounts as separate customer accounts for purposes of applying FINRA rules, the federal securities laws and other applicable federal laws.

9.1.2.1 Market Access

Where access to markets is provided to master accounts, SAMCO and the master accounts are subject to SEC Rule 15c3-5 regarding controls on such access. The master account participants must be determined to confirm compliance with Market Access Rule requirements.

Refer to the section *Market Access* that appears in the following chapters:

- OTC EQUITY TRADING AND MARKET MAKING
- CORPORATE FIXED INCOME SECURITIES SALES AND TRADING

9.1.2.2 Information Security

SAMCO has procedures to protect information and information systems from unauthorized access, disclosure, tampering, and other breaches of information security. Where there are master accounts with sub-account access to Firm systems, all participants will be required to participate in training, validate their participant authority to trade in sub-accounts; and use Firm-issued passwords which will be periodically changed.

9.1.2.3 Surveillance

Transactions for master and sub-accounts are subject to SAMCO's surveillance to identify potential insider trading and market manipulation activities.

9.1.3 Customer Due Diligence - AML Program

[USA PATRIOT Act Section 326; Bank Secrecy Act 31 CFR Chapter X Part 1023 Subpart F]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • New account application and other customer ID information
Frequency	<ul style="list-style-type: none"> • When accounts are opened
Action	<ul style="list-style-type: none"> • Before approving an account, determine that customer identification (ID) verification information is included with the new account application and meets SAMCO's requirements • For non-documentary verification, check the information included with the new account application for completeness and consistency with other customer-provided information (name, address, phone number, taxpayer ID number, <i>etc.</i>) • For unacceptable verification information (incomplete, inconsistent), return the application to the RR for further information or disapprove the account
Record	<ul style="list-style-type: none"> • New account records include customer ID verification as well as the supervisor's approval

When opening new accounts, the customer's identity must be verified, as required by federal law. Customer identification (ID) information must be completed on the new account application.

Customer ID verification does NOT apply to accounts for:

- persons with an existing account at SAMCO (unless the account requires approval by the AML Compliance Officer)
- banks
- governmental entities
- issuers of listed equity securities
- other financial institutions subject to regulation by the SEC, CFTC, Federal Reserve Board, OCC, FDIC, Office of Thrift Supervision, or the National Credit Union Administration
- persons opening accounts to participate in an ERISA plan

9.1.3.1 Required Customer Information

[SEC Securities Exchange Act of 1934 Rule 17a-3(a)(17)(i)(A); FINRA Rule 4512]

Basic information required **prior to opening the account** includes:

- **Name**
- **Date of birth**, for an individual
- **Address:**
 - for an individual, residential or business street address. If no street address exists or is available, an APO or FPO box number or the residential or business street address of a next of kin or another contact individual
 - for a non-individual (corporation, trust, etc.) a principal place of business, local office, or other physical location.
- **Telephone number**
- **Employment status** (including occupation and whether the person is associated with a broker dealer)
- **Annual income**
- **Net worth** (excluding value of primary residence)
- Account's investment objectives
- For joint accounts, information on each joint owner (financial information may be combined)
- **Taxpayer identification number** for a U.S. person (U.S. citizen or non-individual established or organized under U.S. or state laws).
- **Identification number for non-U.S. person** which may include a taxpayer ID number; passport number and country of issuance; alien identification card number; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photo or similar safeguard.

In the case of a customer who has applied for a taxpayer identification number but has not yet received it, notation must be made on the new account application that the taxpayer ID has been applied for. The account will be restricted to liquidating transactions if the taxpayer ID number is not received within [number of days] days of opening the account.

In addition, under FINRA Rule 4512 SAMCO will retain the name of the RR responsible for the account and, if multiple RRs are assigned to the account, a record indicating the scope of their responsibilities with respect to the account. This requirement does not apply to an institutional account.

9.1.3.2 Accounts For Individuals

When opening an account for an individual, the following information is required:

- An unexpired government-issued identification including a photo and nationality or residence such as a driver's license or passport and record information from it on the new account application, **OR**

- A copy of the photo ID with the new account application. (The photo ID [original or copy] must be seen by the employee opening the account to record the information. This information may NOT be taken from the customer over the phone.)
- If the photo ID is not available at the time the new account application is being completed, the RR is to indicate on the new account application whether the customer will provide a copy of photo ID within 30 days of account opening **OR**, if the customer cannot provide a photo ID, the reason why not.
- If the photo ID is not received within 30 days, the account will be restricted to liquidating transactions only until the ID is received.

If the customer has not appeared in person at SAMCO's office, "non-documentary" information will ALSO be required, as explained in a section that follows.

If the customer cannot produce the required photo ID, an explanation must be included on the new account application AND non-documentary information will be required to open the account.

9.1.3.3 Obtaining And Retaining Beneficial Ownership Information

[SEC Release No. 34-61651: Policy Statement on Obtaining and Retaining Beneficial Ownership Information for Anti-Money Laundering Purposes]

For some accounts, beneficial owner information may not be immediately identified when an account is opened. Under AML requirements, firms have an obligation to identify and verify customer accounts and relationships and enhanced due diligence may be necessary depending on the risk profile of the account. Exceptions apply where the customer opening the account is subject to AML rules, such as registered investment advisers and registered broker-dealers.

General obligations when opening accounts that include underlying owners or beneficiaries include:

- Determining whether the customer is acting as an agent for or on behalf of another, and if so, obtaining information regarding the capacity in which and on whose behalf the customer is acting.
- Where the customer is a legal entity that is not publicly traded in the United States, such as an unincorporated association, a private investment company (PIC), trust or foundation, obtaining information about the structure or ownership of the entity so as to allow SAMCO to determine whether the account poses heightened risk.
- Where the customer is a trustee, obtaining information about the trust structure to allow SAMCO to establish a reasonable understanding of the trust structure and to determine the provider of funds and any persons or entities that have control over the funds or have the power to remove the trustees.

If SAMCO has affiliates with public customers, information may be shared across the enterprise to cross-check beneficial ownership information.

9.1.3.4 Enhanced Due Diligence (EDD)

Some types of accounts, because of the potential risk for hiding the identity of underlying beneficial owners or money laundering activities, are subject to enhanced due diligence. The AML Compliance Officer will determine which accounts are subject to EDD and what reviews are necessary. Procedures for correspondent and private banking accounts are included in a separate section of this AML program. Certain trusts, corporate entities, shell entities, and private investment companies are examples of customers that may pose heightened risk.

EDD may include steps, in accordance with the level of risk presented, to identify and verify beneficial owners, to reasonably understand the sources and uses of funds in the account, and to reasonably understand the relationship between the customer and the beneficial owner. EDD information may be used for monitoring purposes and to determine whether there are discrepancies between information

obtained regarding the account's intended purpose and expected account activity and the actual sources of funds and uses of the account.

9.1.3.5 Third Party Accounts

Customer ID required for third party accounts includes the following:

On behalf of an incompetent person: Obtain customer ID of the person holding power of attorney.

With power of attorney or trading authorization held by a third party: Obtain customer ID of the owner of the account. Customer ID is not necessary for the individual with authority over the account unless that person is unfamiliar to the RR or the circumstances regarding the opening of the account raises questions (customer requires wiring funds to an offshore address; third party is a foreign citizen; *etc.*).

9.1.3.5.1 Registered Investment Adviser Accounts

[SEC Division of Market Regulation No-Action Letter to SIFMA dated January 11, 2011:
<http://www.sec.gov/divisions/marketreg/mr-noaction/2011/sifma011111.pdf>]

For accounts established by SEC-registered investment advisers, SAMCO may rely on the adviser to have obtained information to comply with federal Customer Identification Program (CIP) rules under the following circumstances:

- It is reasonable to rely on the adviser's assurances;
- the investment adviser is a U.S. investment adviser registered with the SEC under the Investment Advisers Act of 1940;
- the adviser enters into a written agreement with SAMCO in which the adviser agrees that:
 - it has implemented its own AML Program consistent with the requirements of 31 U.S.C. 5318(h) and will update such AML Program as necessary to implement changes in applicable laws and guidance;
 - it (or its agent) will perform the specified requirements of the broker-dealer's CIP in a manner consistent with Section 326 of the PATRIOT Act;
 - it will promptly disclose to the broker-dealer potentially suspicious or unusual activity detected as part of the CIP being performed on the broker-dealer's behalf in order to enable the broker-dealer to file a Suspicious Activity Report, as appropriate based on the broker-dealer's judgment;
 - it will certify annually to the broker-dealer that the representations in the reliance agreement remain accurate and that it is in compliance with such representations; and
 - it will promptly provide its books and records relating to its performance of CIP to the Commission, to an SRO that has jurisdiction over the broker-dealer, or to authorized law enforcement agencies, either directly or through the broker-dealer, at the request of (i) the broker-dealer, (ii) the Commission, (iii) an SRO that has jurisdiction over the broker-dealer or (iv) an authorized law enforcement agency.

9.1.3.6 Accounts For Non-Individuals

Account documents usually obtained for non-individual accounts (trust instruments, articles of incorporation, partnership agreements, government-issued business license, *etc.*) will usually satisfy customer ID requirements. In the case of corporations, a certified copy of the articles of incorporation or a Corporate Resolution provided by the Clearing Firm is required. These documents must be obtained within 30 days of account opening to satisfy the requirement. The authorizing documents must indicate who has the authority to act on behalf of the account.

9.1.3.7 Non-Documentary Methods Of Verifying Customer Identification

Non-documentary methods of verifying customer ID involve other procedures. Non-documentary methods must be used in the following circumstances:

- An individual is unable to present acceptable photo ID
- The documents presented are unfamiliar
- The account is opened without obtaining documents
- The customer opens the account without appearing in person at SAMCO
- Other circumstances, at the discretion of the RR's supervisor, New Accounts, and/or the AML Compliance Officer, where SAMCO is unable to verify the customer's identity

In these circumstances, a non-documentary method must be indicated by the RR on the new account application:

- Direct customer contact information
- Information from a consumer reporting agency or other database
- References from another financial institution
- Obtaining a financial statement

9.1.3.8 Additional Verification For Certain Customers

For the following types of customers, a minimum of TWO forms of customer ID are required in addition to review and approval by the AML Compliance Officer **prior to** opening the account:

- Numbered accounts
- Accounts domiciled in high-risk countries included on the Treasury Dept. OFAC list (check with Operations personnel for a list of those countries or go to <http://www.treas.gov/offices/enforcement/lists/>)
- Accounts for foreign public officials (individuals in high office in other countries, their families and close associates, political party officials)

9.1.3.9 Lack Of Customer ID Verification

For **customers presenting unacceptable customer ID** at the time of account opening, the account will not be opened.

For **customers who fail to provide required ID or documents within 30 days of account opening**, the account will be restricted to liquidating transactions only until satisfactory ID verification is received.

For **accounts where non-documentary verification results in substantive, unresolved discrepancies** (information that is inconsistent such as name, address, taxpayer ID number, *etc.*), either the account will not be opened or will be immediately closed.

Questions regarding accounts that do not comply with requirements to verify customer ID should be referred to the AML Compliance Officer.

9.1.3.10 Customer Notice

Customers are provided notice, prior to opening an account, that their identification will be verified. This notice may be on SAMCO's web site, on new account applications, or in other disclosures provided at the time of account opening.

9.1.4 Identity Theft (FACT Act Red Flags Rule)

[Fair and Accurate Credit Transactions Act (FACT Act) Section 114 and 315]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • New account information • Order and transactions records (including transfers of funds/securities)

	<ul style="list-style-type: none"> Available reports
Frequency	<ul style="list-style-type: none"> Daily and ongoing
Action	<ul style="list-style-type: none"> Identify "red flags" when reviewing new accounts, orders, and transactions If red flags are identified, contact the AML Compliance Officer to consult regarding further action Include identity theft in training
Record	<ul style="list-style-type: none"> New account records Order and transactions records Referral of red flags to Compliance and notation of action taken Records of training including when conducted, subject matter, and who attended

Identity thieves use someone's personal identifying information to open new accounts and misuse existing accounts. SAMCO has established an Identity Theft Prevention Program (ITPP) to help detect and prevent identity theft. Many elements of detecting or preventing identity theft are similar to anti-money laundering (AML) requirements that are included in these policies. A more detailed explanation of the Program is included in the section *Identity Theft Prevention Program (FACT Act Red Flags Rule)* in the chapter *ANTI-MONEY LAUNDERING (AML) PROGRAM*.

The ITPP is based on identifying "red flags" that indicate identity theft may have occurred. ***It is the responsibility of all employees to be alert and report to the AML Compliance Officer any new or existing customers who may be engaged in violations of anti-money laundering regulations or identity theft or who have reported identity theft.***

9.1.4.1 Red Flags

The following two tables include "red flags" that are possible indicators of identity theft or money laundering.

Red Flags indicating potential Identity Theft
Category: Alerts, Notifications or Warnings from a Consumer Credit Reporting Agency
1. A fraud or active duty alert is included on a consumer credit report. An "active duty" alert is an alert a military person may add to his/her credit report to identify potential identity theft.
2. A notice of credit freeze is given in response to a request for a consumer credit report.
3. A notice of address or other discrepancy is provided by a consumer credit reporting agency.
4. A consumer credit report shows a pattern inconsistent with the person's history, such as a big increase in the volume of inquiries or use of credit, especially on new accounts; an unusual number of recently established credit relationships; or an account closed because of an abuse of account privileges.
Category: Suspicious Documents
5. Identification presented looks altered or forged.
6. The identification presenter does not look like the identification's photograph or physical description.
7. Information on the identification differs from what the identification presenter is saying.

8. Information on the identification does not match other information our firm has on file for the presenter, like the original account application, signature card or a recent check.
9. The application looks like it has been altered, forged or torn up and reassembled.
Category: Suspicious Personal Identifying Information
10. Inconsistencies exist between the information presented and other things we know about the presenter or can find out by checking readily available external sources, such as an address that does not match a consumer credit report, or the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA's) Death Master File.
11. Inconsistencies exist in the information that the customer gives us, such as a date of birth that does not fall within the number range on the SSA's issuance tables.
12. Personal identifying information presented has been used on an account our firm knows was fraudulent.
13. Personal identifying information presented suggests fraud, such as an address that is fictitious, a mail drop, or a prison; or a phone number is invalid, or is for a pager or answering service.
14. The SSN presented was used by someone else opening an account or other customers.
15. The address or telephone number presented has been used by many other people opening accounts or other customers.
16. A person who omits required information on an application or other form does not provide it when told it is incomplete.
17. Inconsistencies exist between what is presented and what our firm has on file.
18. A person making an account application or seeking access cannot provide authenticating information beyond what would be found in a wallet or consumer credit report, or cannot answer a challenge question.
Category: Suspicious Account Activity
19. Soon after SAMCO gets a change of address request for an account, we are asked to add additional access means (such as debit cards or checks) or authorized users for the account.
20. A new account exhibits fraud patterns, such as where a first payment is not made or only the first payment is made, or the use of credit for cash advances and securities easily converted into cash.
21. An account develops new patterns of activity, such as nonpayment inconsistent with prior history, a material increase in credit use, or a material change in spending or electronic fund transfers.
22. An account that is inactive for a long time is suddenly used again.
23. Mail SAMCO sends to a customer is returned repeatedly as undeliverable even though the account remains active.
24. We learn that a customer is not getting his or her paper account statements.
25. We are notified that there are unauthorized charges or transactions to the account.
Category: Notice From Other Sources
26. An outside agency, law enforcement, a clearing firm, or other source notifies SAMCO that an account has been opened or used fraudulently.
27. SAMCO is notified of potential unauthorized access to customer personal information due to data loss from an outside provider or a breach of an outside provider's data.
28. Notice from a customer of the loss of information (e.g., loss of wallet, birth certificate, etc.).

The customer exhibits unusual concern regarding SAMCO's compliance with government reporting requirements and SAMCO's AML policies, particularly with respect to his or her identity, type of business and assets, or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspect identification or business documents.
The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy.
The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs.
The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.
The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
The customer attempts to make frequent or large deposits of currency, insists on dealing only in cash equivalents, or asks for exemptions from SAMCO's policies relating to the deposit of cash and cash equivalents.
The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the \$10,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds.
For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers.
The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the Financial Action Task Force (FATF).
The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity.
The customer's account shows numerous currency or cashiers check transactions aggregating to significant sums.
The customer's account has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.
The customer's account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven
The customer's account indicates large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose.
The customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm, without any apparent business purpose.
The customer makes a funds deposit for the purpose of purchasing a long-term investment followed shortly thereafter by a request to liquidate the position and transfer of the proceeds out of the account.
The customer engages in excessive journal entries between unrelated accounts without any apparent business purpose.

The customer requests that a transaction be processed in such a manner to avoid SAMCO's normal documentation requirements.
The customer, for no apparent reason or in conjunction with other "red flags," engages in transactions involving certain types of securities, such as penny stocks, Regulation "S" (Reg S) stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.)
The customer's account shows an unexplained high level of account activity with very low levels of securities transactions.
The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent business purpose or other purpose.
The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer.

9.1.4.2 Notifying The AML Compliance Officer

If an employee identifies suspicious activity or red flags involving new or existing accounts, it is the employee's obligation to **immediately** notify his or her supervisor and/or the AML Compliance Officer. Supervisors are responsible for contacting the AML Compliance Officer if notified by an employee of suspicious activity or red flags or when he or she personally identifies them.

9.1.5 SIPC Disclosure

[FINRA Rule 2266]

When new accounts are opened, new customers will be provided information about the Securities Investor Protection Corporation (SIPC) including SIPC's web site address and phone number. This information is also provided annually in writing to all customers.

9.1.6 Approval

[SEC Securities Exchange Act of 1934 Rule 17a-3(17)(i)(A); FINRA Rule 4512]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> New Account Form
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> Review new account form for: <ul style="list-style-type: none"> Completeness Proper styling of account Unacceptable accounts (accounts in name of minor only, fictitious accounts, numbered accounts without disclosure of owner, etc.) Potential improper addresses (post office boxes, addressed to RR or SAMCO, etc.) Consistency of investment objectives with financial status, prior investment experience, etc. Initial transaction consistent with investment objectives RR registration in state of customer's residency

Record	<ul style="list-style-type: none"> • Supervisor's signature on New Account Form • New account forms are retained by Operations
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A completed new account form, signed by the RR, is required for each new account opened. The designated supervisor is responsible for reviewing the new account form for the necessary information and will promptly approve each new account.

9.1.7 Customer Account Information

[SEC Securities Exchange Act of 1934 Rule 17a-3(17)(i)(A); NASD Rule 3012(a)(2)(B)]

Within 30 days of opening an account (or with the next scheduled account statement), the clearing firm will send the customer a copy of new account information for verification. In addition, account information will be verified with the customer every three years. In the event there is a change to the customer's account (including changes in investment objectives), the changed account information will be sent to the customer for verification within 30 days of submission of the change.

Compliance will review customer responses that revise new account information and will notify the RR, the RR's supervisor, and New Accounts of the changes.

9.1.8 Addresses On Customer Accounts

[SEC Securities Exchange Act of 1934 Rule 17a-3(a)(17)(i)(B)(2); NASD Rule 3012(a)(2)(B)]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • New account forms
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Identify improper address on new account forms at time of approval • When approving new accounts, ensure beneficial owner of the account will receive confirmations consistent with the policy
Record	<ul style="list-style-type: none"> • Supervisor's signature on New Account Form

Confirmations and statements and other account information will be transmitted to the customer at the address requested by the customer. SAMCO or an employee may not be the sole addressee for a customer's account unless the account is for the direct benefit of SAMCO or employee.

Acceptable addresses include:

- **for an individual:** residential or business street address. If no street address exists or is available, an APO or FPO box number or the residential or business street address of a next of kin or another contact individual
- **for a non-individual (corporation, trust, etc.):** a principal place of business, local office, or other physical location.
- **for a P.O. Box address:** a legal address for the customer must also be provided.

Accounts **may not** be addressed to SAMCO, an RR or other employee of SAMCO with the exception of accounts for the beneficial ownership of the RR or employee. Accounts **may not** be addressed

care/of (c/o) someone else unless the customer provides written authorization requesting such an address.

Address changes require written instructions from the customer. Upon notification of a change of address, a notice will be sent to the customer's old address confirming that an address change has been made to the account. Compliance will follow up regarding questions about address changes.

Where the account is opened by a fiduciary such as an investment adviser on behalf of the fiduciary's customer, SAMCO will provide either confirmations or periodic account statements to the underlying beneficial account holder. SAMCO will make a good faith effort to obtain the information necessary to send confirmations directly to the beneficial owner; however, if this information is not provided by the fiduciary, SAMCO will forward confirmations to the owner's custodian or, if there is no custodian or SAMCO is the custodian, SAMCO will send the confirmation directly to the fiduciary.

9.1.9 Account Documents

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• New Account Form• Missing Documents Report
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Establish procedures to ensure required account documents are obtained for each new account
Record	<ul style="list-style-type: none">• Most current Missing Documents Report retained for follow up• New account files in Operations include documents obtained

Additional account documents may be required depending on the type of account opened. The designated supervisor is responsible for establishing procedures outlining the necessary account documents and follow-up regarding missing documents.

9.1.10 Predispute Arbitration Agreements With Customers

[FINRA Rule 2268; FINRA Notice to Members 05-32 and 05-09]

Customers will be provided with copies of any signed agreements that include a predispute arbitration agreement within 30 days of signing; the customer will acknowledge receipt of the arbitration agreement on the agreement itself or on a separate document.

In addition, within 10 days of request by a customer, SAMCO will provide a copy of any predispute arbitration agreement the customer has signed as well as relevant arbitration forum rules, if requested. The customer will be notified if the signed agreement cannot be located.

9.1.11 Revisions To Customer Agreements

Firm policy does not permit revisions to pre-printed language on customer agreements. Requests for changes should be referred to Compliance for review.

9.1.12 Accounts Requiring Notification To Customer's Employer

[NASD Rule 3050]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
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Resources	<ul style="list-style-type: none"> • New Account Form
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Code account for duplicate confirmations and/or statements as requested by other broker-dealers • For accounts of employees of FINRA or the AMEX, code the accounts for duplicate confirmation and statements to FINRA or the AMEX
Record	<ul style="list-style-type: none"> • Record of duplicate confirmations and statements is included with new account records

9.1.12.1 Employees Of Other Broker-Dealers

When opening an account for a person employed by another broker-dealer (including accounts where the employee has control or a personal financial interest), the other broker-dealer must be notified. SAMCO will provide duplicate confirmations, statements, or other information requested by the employing broker-dealer.

9.1.12.2 Transactions Involving FINRA Employees

[FINRA Rule 2070]

When SAMCO has notice that a FINRA employee has a financial interest in, or controls trading in, an account, SAMCO will obtain and implement instructions from the employee to provide duplicate account statements to FINRA.

SAMCO or its employees are prohibited from making a loan of money or securities to any FINRA employee other than disclosed, routine banking and brokerage agreements (or loans originating from a personal or family relationship).

SAMCO or its employees cannot directly or indirectly give anything (other than something of nominal value such as a logo hat, pen, etc.) to a FINRA employee who has responsibility for a regulatory matter involving SAMCO. "Regulatory matter" includes examinations, disciplinary proceedings, membership applications and dispute-resolution proceedings.

9.1.13 Post Office Addresses

If the customer opens an account using a post office address, the street address must also be provided on the new account form. The only exception is for customers who reside in rural areas where the post office address is the only address, which should be noted on the new account form.

9.1.14 Unacceptable Accounts

The following are examples of accounts that are unacceptable. Questions regarding whether new accounts may be opened should be referred to Compliance.

Unacceptable accounts include:

- Fictitious accounts in a name other than the name of the legal owner
- Accounts in the name of a minor
- Margin accounts for minors

9.2 Transferring Accounts

[FINRA Rule 2140 and 11870]

9.2.1 Accounts Transferring In

When new accounts are transferred from another broker-dealer, a transfer form must be completed by the customer authorizing the transfer and provided to the receiving firm. Most accounts transfer via ACATS which expedites validation and transfer from the other BD.

Orders to sell securities to be transferred from the other firm may not be entered until validation is received. RRs should contact Operations to confirm whether the transfer has been validated.

9.2.2 Accounts Transferring Out

When validated instruction has been received to transfer a customer's securities account assets to another firm, the account will be "frozen," *i.e.*, all open orders (with the exception of option positions that expire within 7 business days) must be canceled and no new orders taken.

SAMCO and its employees may not interfere with a customer's request to transfer his or her account unless there is a *bona fide* reason for doing so, such as a lien for money owed.

9.3 Accounts And Securities Subject To Blocking

[Various Treasury Department regulations]

SAMCO is prohibited from doing business in specific countries or with organizations or individuals the subject of Government sanctions. The U. S. Treasury Department's Office of Foreign Assets Control (OFAC) is responsible for administering and enforcing economic and trade sanctions. Sanctions target foreign countries, terrorism sponsoring organizations, narcotics traffickers, money launderers, and other entities and individuals. Sanctions include the freezing of assets and blocking securities issued by embargoed foreign issuers.

As part of its anti-money laundering program, SAMCO monitors accounts and securities included on OFAC's lists, available at OFAC's web site at www.treas.gov/ofac. OFAC information is updated whenever the Government issues new sanctions that result in blocking requirements.

Blocking will occur under the following circumstances:

- An account is opened for someone included on an OFAC list.
- The owner of an existing account is added to an OFAC list.
- A security is identified in a customer account where the issuer is the subject of blocking requirements.
- A request is made by a customer to pay or transfer funds or securities to a blocked person or entity.

RRs will be notified if one of their customer accounts; a security held in one of their accounts; or a requested transfer of funds or securities is blocked. In addition to the above, open orders will be cancelled for any account that is blocked.

Compliance with blocking requirements is very important. Violations can result in substantial fines against SAMCO or persons engaging in prohibited transactions. Questions regarding blocked accounts, transfers, or securities should be referred to Compliance.

9.4 Updating Account Information And Periodic Affirmation

[SEC Securities Exchange Act of 1934 Rule 17a-3(a)(17); NASD Rule 3012(a)(2)(B)]

Responsibility	<ul style="list-style-type: none"> • RR • Compliance
Resources	<ul style="list-style-type: none"> • Information obtained from customer • Responses from customers
Frequency	<ul style="list-style-type: none"> • As required: update account information based on information provided by customer • Within 30 days of changes: send written information about changes to account • At least every 36 months: send customers a copy of new account information
Action	<ul style="list-style-type: none"> • RR: Record changes to customer information reported by customer • Send information to customers • Compliance: follow up customer responses (contact RR, RR's supervisor, New Accounts)
Record	<ul style="list-style-type: none"> • New account records • Record of furnishing information within 30 days • Notation of action by Compliance for responses received from customers

RRs should promptly update customer new account information whenever they are informed or become aware of changes. Updates may be recorded by making revisions to existing forms or completing new forms. New forms require the approval of the designated supervisor and signature of the customer, where required.

Within 30 days of changes to a customer's investment objectives, SAMCO (or its clearing firm, if applicable) will send a copy of new account information, including the change, to the customer with a request for correction of any inaccurate information.

At least every 36 months customers will be provided with new account information on record for their accounts and will be asked to advise of any changes or updates. Responses will be forwarded to Compliance. This notification is not required for accounts that have been inactive for 36 months or where no recommendations are made to the customer.

9.5 Customer Account Sweeps To Banks

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Proposed new programs or material changes to existing programs
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Consider net capital/customer protection implications of terminating a program or adopting a new program • Confirm the bank's business continuity program complies with SRO business continuity rule requirements • For programs with banks that allow the customer to make deposits and/or withdrawals, include accounts in AML reviews • Review the new program or changes

	<ul style="list-style-type: none"> • Prepare disclosure information for customers • Distribute disclosure information • Arrange for RR training, if necessary • If SAMCO has a web site, post interest rates
Record	<ul style="list-style-type: none"> • Copies of programs, contracts with providers, records of distributing disclosures to customers when new programs are implemented or changes occur • Copy of bank's affirmation regarding compliance with business continuity requirements

Customer accounts may "sweep" available funds into money market, bank, or comparable accounts enabling the customer to earn interest on idle funds. Customers are provided with disclosures when:

- a program is first implemented;
- a new account is opened; and,
- when material changes occur in an existing program.

9.6 Margin Accounts

[FINRA Rule 4210; Federal Reserve Regulation T]

9.6.1 Opening Margin Accounts

Prior to engaging in margin transactions, the customer's account must have on deposit at least \$2,000 in cash or securities. Customers must sign SAMCO's margin agreement which must be received within five days from the first margin trade.

9.6.2 Employee Accounts

Extensions and prepayments are not permitted in employee accounts, except under extraordinary circumstances and with approval of the designated supervisor.

9.6.3 Disclosures

9.6.3.1 Margin Disclosure Statement

[FINRA Rule 2264]

Under FINRA rules, all non-institutional customers who open a margin account must be provided with a margin disclosure statement when the account is opened. SAMCO's disclosure statement must be included when the margin agreement is sent to the customer for signing. In addition, all margin customers will be provided annually with a copy of the disclosure statement or an abbreviated version of the statement. RRs are responsible for providing the initial disclosure statement; SAMCO (or its clearing firm, if applicable) will send annual disclosures. The margin disclosure statement also appears on SAMCO's web site.

Under this requirement, the term "**non-institutional customer**" includes all customers **except**:

- A bank, savings and loan association, insurance company, or registered investment company.
- An investment adviser registered either with the SEC or with a state securities commission
- Any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million

The [person responsible] is responsible for providing the initial disclosure document to new non-institutional margin account customers.

The [person/department] is responsible for providing the annual disclosure document.

9.6.3.2 Disclosure Of Credit Terms

[SEC Securities Exchange Act of 1934 Rule 10b-16]

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.

The Clearing Firm is responsible for providing credit disclosures to margin customers.

9.6.4 Equal Credit Opportunity Act Requirements

SAMCO will not discriminate in the extension of credit to customers. Where credit is denied, SAMCO will provide information to the credit applicant in accordance with the provisions of the Equal Credit Opportunity Act.

9.6.5 Arranging Credit

RRs are not permitted to assist a customer in making credit arrangements to purchase securities outside SAMCO, other than on terms consistent with those permitted by Regulation T and other rule requirements.

9.6.6 Suitability

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.

9.6.7 Margin Requirements

Initial and maintenance requirements are available by contacting Operations.

9.6.8 New Issues

Margin on new issues are not permitted for a period of 30 days from the effective date of the distribution.

9.6.9 Credit On Restricted Securities

Extension of credit or margin transactions in securities for corporate insiders require the prior approval of Operations. 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.

9.6.10 Fiduciary Accounts

Margin transactions are permitted for accounts controlled by an administrator, conservator, custodian (not including UTMA/UGMA accounts), executor, guardian or trustee as follows:

- when such person holds explicit power to engage in margin transactions
- after review of the appointment and applicable document (trust agreement, trust certification, will, *etc.*) explaining investment powers and approval by Compliance

RRs should submit the appropriate enabling document (trust agreement, *etc.*) to Compliance prior to engaging in margin transactions.

9.6.11 Portfolio Margin Accounts

[FINRA Rule 4210(g); FINRA Notice 08-41, 07-14 and 07-11]

Customers with portfolio margin accounts must be provided with a special written disclosure describing the nature of, and risks associated with, portfolio margining. Customers must sign and acknowledge that they have read and understand the disclosure statement and agree to the terms of maintaining a portfolio margin account. RRs are responsible for providing the disclosure and obtaining signed acknowledgment which will be retained in the customer's account file.

Portfolio margining is a margin methodology that sets margin requirements for an account based on the greatest projected net loss of all positions in a product class or group using computer modeling to perform risk analysis using multiple pricing scenarios. It is applicable to all margin equity securities, listed options, security futures products, unlisted derivatives, warrants, index warrants and related instruments.

There are eligibility requirements for customers (other than broker-dealers):

- Meet basic standards for having an account approved for uncovered writing
- Have and maintain at all times account net equity of at least \$5 million (waived for accounts solely limited to listed security futures contracts and listed single stock options) aggregated across all accounts under identical ownership at the clearing broker

Portfolio margining generally permits greater leverage resulting in greater risk for loss. The time limit for meeting margin calls is shorter than for a standard margin account. Operations procedures should be consulted for more detailed information regarding portfolio margining requirements.

9.7 Third Party Accounts

When a third party who is not the principal or named person on the account will give instructions regarding orders, disposition of funds, or other actions involving an account, SAMCO must have a signed third-party trading authorization. The authorization is signed by the principal of the account and the third party, giving the third party authority to act on behalf of the principal. An example of a third party account is an account for a wife whose husband will give instructions regarding his wife's account. The signed trading authorization must be received BEFORE accepting instructions from the third party.

SAMCO has two types of trading authorizations:

- Limited trading authorizations limit the third party to giving instructions regarding the purchase and sale of securities and does NOT give authority regarding the disposition of funds or securities.
- Full trading authorizations give the third party authority to give instructions regarding purchases and sales as well as the disposition of funds or securities in the account.

9.8 Discretion For Orders And Accounts

[SEC no-action letters regarding cash management accounts (<http://sec.gov/divisions/investment/noaction/ubs092905.htm>) and family/related accounts (<http://sec.gov/divisions/investment/noaction/morganlewis111705.htm>)]

SAMCO does **not** permit discretionary accounts where the customer signs a discretionary trading authorization and permits the RR to make decisions for the account without consulting with the customer first.

This prohibition does not include temporary or limited discretion in the following examples:

- Price and time discretion for an order.

- Isolated or infrequent discretion, such as when a customer is unavailable for a limited period of time. The customer must sign a trading authorization in advance, an expiration date must be noted on the agreement, and the limited discretion must be approved by the RR's supervisor.
- Exchanging one money market fund for another or its cash equivalent.
- Transactions to satisfy margin requirements.
- Selling bonds and buying similar bonds permitting the customer to take a tax loss on the original purchase.
- Buying a bond with a specified credit rating and maturity.
- Buying or selling a security or type of security within limited specific parameters established by the customer (requires the customer's instructions in writing).
- The RR acts as conservator, trustee, attorney-in-fact, or other agent as a result of a family or personal relationship with the account.

9.9 Accounts For Minors

[Uniform Gifts To Minors Act; Uniform Transfers To Minors Act]

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

- A custodian must be named in and handle the account
- Only one custodian is permitted for each account
- Custodians generally may not delegate authority to another person
- Only one minor may be named in each account
- Margin transactions are not permitted
- Gifts to minors are irrevocable, *i.e.*, the custodian may not direct distribution of assets from the account except for the benefit of the minor
- The minor's social security number must be used when opening the account
- Minors may not be a party to a joint account, investment club, or partnership

9.10 Accounts For Senior Investors

[SEC/NASAA 2008 report on Protecting Senior Investors:

<http://www.sec.gov/spotlight/seniors/seniorspracticesreport092208.pdf>; 2010 addendum to 2008 report:

<http://www.sec.gov/spotlight/seniors/seniorspracticesreport081210.pdf>; SEC web site Senior Investors:

<http://www.sec.gov/divisions/marketreg/seniorinvestors.htm>; FINRA Regulatory Notice 11-52 and 07-43]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • New account information • Order records • Daily Transaction Report • Customer monthly transaction records • Advertising targeting senior investors • Seminar materials
Frequency	<ul style="list-style-type: none"> • Training - as scheduled • Ongoing - other actions
Action	<ul style="list-style-type: none"> • Conduct training on dealing with senior investors • When reviewing investments for seniors, take into particular consideration the factors included in the subsection <i>Recommendations To Senior Investors</i> • Refer to new account information when necessary to identify investment objectives and other customer information

	<ul style="list-style-type: none"> • Review account activity when appropriate • For escalated issues: <ul style="list-style-type: none"> ◦ Consider direct contact with the investor ◦ Notify state or other authorities (after conferring with Compliance) regarding potential elder abuse • Confer with RR regarding suitability questions • Confer with Compliance when necessary • Contact customer when necessary to confirm customer's understanding of and agreement with transactions • Modify or restrict future transactions, as appropriate
Record	<ul style="list-style-type: none"> • Initials and comments of action taken on order records, Daily Transaction Report, monthly transaction records, and other available account information

9.10.1 General Requirements

When opening and handling accounts for senior investors, there are certain considerations in addition to usual account handling procedures. There is no benchmark for what constitutes a "senior" or "older" investor, but generally these are individuals who are approaching or have achieved retirement.

9.10.2 Opening Accounts For Senior Investors

When opening accounts, the following should be considered when serving senior investors:

- encourage customers to identify a 3rd-party emergency contact and obtain permission to contact that person in the event there is an issue or event that requires clarification (such as the customer suffers diminished mental capacity in the future)
- indicate "retired" on the new account form to assist in evaluating the investor's status as someone potentially withdrawing from investments vs. accumulating assets
- obtain "lifestyle" information such as when the investor plans to retire, if not already retired; how much money will be needed after retirement; whether a dependent is supported by the investor; other expenses anticipated by the investor; the existence of a will and financial power of attorney

Accounts must NOT be opened for a senior investor if there is evidence of financial abuse or diminished capacity; orders should not be accepted under such circumstances, either.

9.10.3 Recommendations To Senior Investors

[FINRA Regulatory Notice 07-43]

Suitability considerations are a concern for all types of accounts. While suitability requirements do not specifically refer to age or life stage, these factors should be considered when making recommendations to older investors. Considerations when dealing with senior investors include:

- Current and future prospects for employment
- Primary expenses including whether the customer still has a mortgage
- Sources of income and whether it is fixed or will be in the future
- Income needed to meet fixed or anticipated expenses
- Savings for retirement and how they are invested
- Liquidity needs
- Financial and investment goals (income needs, preservation of capital, accumulation of assets for heirs)
- Health care insurance and future needs to fund health costs

9.10.4 Diminished Mental Capacity

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

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

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

Contact Compliance with questions about a proper course of action.

9.10.5 Potential Indication Of Elder Financial Exploitation

[FinCEN Advisory FIN-2011-A003: http://www.fincen.gov/statutes_regs/guidance/html/fin-2011-a003.html]

This section includes an excerpt from a FinCEN advisory. This information provides guidance to RRs and other employees when handling accounts for elderly customers. Questions regarding potential elder abuse should be referred to your supervisor or Compliance.

The following red flags could indicate the existence of elder financial exploitation. This list of red flags identifies only possible signs of illicit activity. Financial institutions should evaluate indicators of potential financial exploitation in combination with other red flags and expected transaction activity being conducted by or on behalf of the elder. Additional investigation and analysis may be necessary to determine if the activity is suspicious.

Financial institutions may become aware of persons or entities perpetrating illicit activity against the elderly through monitoring transaction activity that is not consistent with expected behavior. In addition, financial institutions may become aware of such scams through their direct interactions with elderly customers who are being financially exploited. In many cases, branch personnel familiarity with specific victim customers may lead to identification of anomalous activity that could alert bank personnel to initiate a review of the customer activity.

- Erratic or unusual banking transactions, or changes in banking patterns:
 - Frequent large withdrawals, including daily maximum currency withdrawals from an ATM;
 - Sudden Non-Sufficient Fund activity;
 - Uncharacteristic nonpayment for services, which may indicate a loss of funds or access to funds;
 - Debit transactions that are inconsistent for the elder;
 - Uncharacteristic attempts to wire large sums of money;
 - Closing of CDs or accounts without regard to penalties.
- Interactions with customers or caregivers:
 - A caregiver or other individual shows excessive interest in the elder's finances or assets, does not allow the elder to speak for himself, or is reluctant to leave the elder's side during conversations;
 - The elder shows an unusual degree of fear or submissiveness toward a caregiver, or expresses a fear of eviction or nursing home placement if money is not given to a caretaker;

- The financial institution is unable to speak directly with the elder, despite repeated attempts to contact him or her;
- A new caretaker, relative, or friend suddenly begins conducting financial transactions on behalf of the elder without proper documentation;
- The customer moves away from existing relationships and toward new associations with other "friends" or strangers;
- The elderly individual's financial management changes suddenly, such as through a change of power of attorney to a different family member or a new individual;
- The elderly customer lacks knowledge about his or her financial status, or shows a sudden reluctance to discuss financial matters.

9.10.6 Escalating Issues Involving Senior Investors

When dealing with senior investors, there may be changes or events that require escalation of an issue to the RR's designated supervisor and/or Compliance. Following are some issues that may require escalation for handling. Any questions regarding dealing with senior investors should be referred to Compliance.

- Suspected elder abuse including financial abuse (contacting appropriate state or other authorities may be necessary; confer with Compliance regarding such referrals)
- Suspected diminished capacity

Having the RR's designated supervisor or Compliance make direct contact with the investor may be appropriate.

9.10.7 Use Of Titles Inferring Expertise

[NASAA Model Rule on the Use of Senior-Specific Certifications and Professional Designations]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • RR requests to use titles • Information regarding outside organizations that confer titles • Correspondence and other customer communications
Frequency	<ul style="list-style-type: none"> • As required - review requests • Daily and ongoing - review of correspondence/communications
Action	<ul style="list-style-type: none"> • Review requests for use of special titles/designations: <ul style="list-style-type: none"> ○ Review any outside organization conferring designations for appropriate qualifications such as internal ethics policies, criteria for conferring designations ○ Review the RR requesting the title for qualifications including experience, completion of continuing education with SAMCO and regulatory/compliance history ○ Determine state requirements that regulate the use of designations • For those approved to use titles, notify the RR's supervisor who is responsible for review of communications to determine proper use of title • Notify RR and supervisor if approval is withdrawn due to failure to complete necessary education requirements or other requirements
Record	<ul style="list-style-type: none"> • Review of outside organizations • Review of RRs

	<ul style="list-style-type: none"> • Approval or disapproval, other actions taken
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RRs may use special titles indicating expertise when dealing with senior investors under the following requirements:

- A request to use a title must be provided to Compliance **prior to use** including the name and address of any outside organization conferring such titles based on meeting the organization's requirements.
- Titles may not be self-conferred, *i.e.*, the title must be based on some criteria or qualification met.
- The RR must be in good standing with the organization that confers the designation.
- The RR must be current on any continuing education requirements of the outside organization.
- The RR must complete firm training specifically relating to dealing with senior investors which may include retirement planning; ethics when working with senior investors; and the proper use of senior designations in advertising, sales literature, correspondence, and seminars/luncheons.
- Business cards/letterhead are limited to that which is centrally issued by SAMCO; RRs may not create their own cards or letterhead.
- Compliance will review the request and notify the RR and the RR's supervisor if the request is approved or disapproved.
- Titles may be used only after Compliance approval.
- RRs who use senior designations must attest on the *Annual Employee Certification* their compliance with requirements.

9.10.8 Reverse Mortgages

[FINRA Investor Alert: Reverse Mortgages, Avoiding a Reversal of Fortune]

A reverse mortgage is an interest-bearing loan secured by the equity in a home. Generally the borrower and any other co-borrowers (such as a spouse) must own the home and be 62 or older (some lenders may have other criteria). Home equity may be converted to cash that can be used for any purpose. The homeowner makes no interest or principal payments during the life of the loan; interest is added to the principal. Unless the loan is a fixed-term loan, the loan only becomes due when the homeowner dies, sells the home, or otherwise leaves the home for more than 12 months. If any of these events occur, the borrower or heirs must repay the loan, including compounded interest, in full. Usually the home is sold and the loan is paid from proceeds of the sale.

RRs are not permitted to recommend customers use reverse mortgages to fund investments. If a customer indicates he or she has funds available for investment from the proceeds of a reverse mortgage, the following is required.

1. Provide the customer with a copy of the FINRA Investor Alert *Reverse Mortgages: Avoiding A Reversal of Fortune*. Obtain a letter from the customer acknowledging receipt of the Alert.
2. Consult with the customer about investment objectives and the need for the proceeds as living expenses.
3. Recommend investments consistent with those needs; most investments should be conservative and suitable for someone with a limited lifespan and potentially facing expenses for health issues.
4. Recommendations other than conservative investments must be approved by the designated supervisor **prior to** making the investments. Provide the supervisor with a copy of the new account information and a written explanation of funds available, the needs of the investor, and how they are to be invested.

9.10.9 Luncheon Programs And Seminars

[SEC/NASAA report on free lunch seminars: <http://www.sec.gov/spotlight/seniors/freelunchreport.pdf>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor• Compliance
Resources	<ul style="list-style-type: none">• Public Speaking/Seminar/Luncheon Request• Materials to be provided to attendees• Proposed advertising of the event
Frequency	<ul style="list-style-type: none">• As required when the form is submitted
Action	<ul style="list-style-type: none">• The designated supervisor is responsible for:<ul style="list-style-type: none">○ reviewing the form and making changes, if needed, to the proposed event and related materials or advertising○ submitting the form and attached materials to Compliance for review○ attending or designating someone to attend meetings randomly at least once every two months to confirm compliance with SAMCO requirements○ if non-compliance or questionable activities are identified, confer with the RR and Compliance regarding corrective action• Compliance reviews and revises the submitted materials and responds to the designated supervisor, approving or disapproving
Record	<ul style="list-style-type: none">• Designated supervisor retains:<ul style="list-style-type: none">○ copy of request form and related materials○ record of randomly attending luncheons/seminars and corrective action taken, if necessary• Compliance retains:<ul style="list-style-type: none">○ the form and all related materials including notations of changes and approval or disapproval○ record of corrective action taken when necessary

Luncheon programs and seminars are a common approach to reach investors and have become particularly popular in soliciting senior investors. These programs, as for all public speaking, require the approval of the designated supervisor including submission of the invitation, any related advertisement, an outline of subjects to be covered and copies of materials to be distributed or shown in presentations (slide shows, Powerpoint presentations, *etc.*). Advertising must be approved by Compliance.

Luncheon programs cannot infer that no products will be sold or mislead invitees as to the purpose of the luncheon. Products offered must be suitable for the target audience and the suitability of any recommendation must be considered for each investor individually.

- Complete the Public Speaking/Seminar/Luncheon Request form and submit to the designated supervisor at least 3 weeks prior to the event, to ensure timely review.
- Attach materials to be provided to attendees as well as proposed advertising of the event.

9.10.10 Advertising Targeting Seniors

Advertising that targets seniors must be balanced and may only include products or services suitable for senior investors. All advertising must be approved by Compliance prior to publication or distribution.

9.11 Incompetent Persons

Accounts for incompetent persons may only be opened with the appropriate authority from a court-appointed guardian. If an RR becomes aware that a customer has become incompetent, the RR should contact the branch manager or Compliance for further guidance.

If a customer becomes incompetent while a third party trading authorization is in effect for his or her account, the authority generally is considered invalid and requires a court order for reinstatement. "Durable" powers of attorney, recognized by some states, remain in effect after a person is declared incompetent. Questions should be referred to Compliance.

9.12 Trust Accounts

New accounts for trusts require a copy of the trust agreement or a trust certification signed by the authorized trustee. The following activities in trust accounts require **prior** approval as follows:

- Margin trading requires approval by Compliance
- Option trading requires approval by Compliance
- Discretionary accounts require approval by Compliance (if SAMCO permits discretionary accounts)

Fiduciaries (executors, trustees, guardians, administrators, conservators, etc.) may not be able to delegate their duties to a third party (whether the RR or an outside person) to manage the account unless the trust or other authorizing instrument specifically permits delegation. Some states require the fiduciary to obtain a court order to delegate authority to a third party.

9.13 Correspondent And Private Banking Accounts And Accounts For Senior Foreign Political Figures

[Bank Secrecy Act 31 CFR Chapter X Part 1010 Subpart F; USA PATRIOT Act Section 312 and 313; FinCEN Fact Sheet (<http://www.fincen.gov/312factsheet.pdf>)]

Under anti-money laundering (AML) rules, there are special requirements that apply to "correspondent" and "private banking" accounts as well as to accounts for "senior foreign political figures." Definitions of these and other terms follow the summary of requirements. Questions should be referred to the AML Compliance Officer.

9.13.1 Summary Of Requirements

- Correspondent accounts require due diligence to determine ownership of the account.
- Accounts cannot be opened for foreign shell banks.
- When opening an account for a foreign bank, the Foreign Bank Certification form must be submitted to the AML Compliance Officer with the New Account Form for review and approval.
- Every three years foreign banks will be required to re-certify the information in the Foreign Bank Certification.
- When opening an account for a senior foreign political figure, the new account application must be submitted to the AML Compliance Officer for review and approval.

9.13.2 Definitions

Correspondent account: Includes any account established for a foreign financial institution to receive deposits from, or to make payments or other disbursements on behalf of, the foreign

institution, or to handle other financial transactions related to such foreign financial institution. This type of account presumes a formal relationship through which the financial institution provides regular services. Due diligence requirements apply to correspondent accounts maintained for the following foreign financial institutions:

- Foreign bank
- Foreign branch of a U.S. bank
- Business organized under a foreign law that, if located in the U.S., would be a securities broker-dealer, futures commission merchant, introducing broker in commodities, or a mutual fund
- Money transmitter or currency exchanger organized under a foreign law

Private banking account: A private banking account is an account that is established or maintained for the benefit of one or more non-U.S. persons, requires minimum aggregate deposit of funds or other assets of not less than \$1,000,000, and is assigned to a bank employee who is a liaison between the financial institution and the non-U.S. person. If the account otherwise satisfies the definition but the institution does **not** require a minimum balance of \$1,000,000, the account does not qualify as a private banking account.

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 or not they are or were elected officials
- a senior official of a major foreign political party
- a senior executive of a foreign government-owned commercial enterprise (Senior executives are individuals with substantial authority over policy, operations, or the use of government-owned resources.)
- immediate family members of the above, and those who are widely and publicly known (or actually known) close associates of a senior foreign political figure
- a corporation, business, or other entity formed by or for the benefit of one of the above individuals

Proceeds of foreign corruption: any asset acquired by, through, or on behalf of a senior foreign political figure through misappropriation, theft, or embezzlement of public funds, the unlawful conversion of property of a foreign government, or through acts of bribery or extortion, and include any other property into which any such assets have been transformed or converted.

Foreign bank: a bank organized under foreign law, or an agency, branch, or bank office located outside the United States. The term does not include an agent, agency, branch or office within the U.S. of a bank organized under foreign law.

Foreign shell bank: is defined as a foreign bank without a physical presence in any country.

Regulated affiliate: is a foreign shell bank that (1) is an affiliate of a depository institution, credit union, or foreign bank that maintains a physical presence in the United States or a foreign country, as applicable; and (2) is subject to supervision by a banking authority in the foreign country regulating such affiliated depository institution, credit union, or foreign bank.

9.13.3 Prohibition Against Correspondent Accounts For Foreign Shell Banks

SAMCO is prohibited from establishing, maintaining, administering, or managing a correspondent account in the United States for an unregulated foreign shell bank. The prohibition does not apply to a foreign shell bank that is a regulated affiliate. If an account is inadvertently opened for an unregulated foreign shell bank, the AML Compliance Officer should be notified and the account will be immediately closed.

9.13.4 Foreign Bank Certification

When opening an account for a foreign bank, SAMCO is obligated to ensure the bank is not a foreign shell bank and must obtain information about the foreign bank's owners and an agent for service of process. The bank must complete the Foreign Bank Certification which must be submitted to the AML Compliance Officer with a copy of the New Account Form for review. Every three years the bank is also required to re-certify the information filed with SAMCO.

9.13.5 Accounts For Foreign Political Figures

Accounts for foreign political figures (as defined above) are subject to special reviews to comply with Bank Secrecy Act requirements. RRs are required to identify, on the new account application, whether an account for a foreigner falls under the definition. The application must be submitted to the AML Compliance Officer for review and approval.

9.14 Pension And Retirement Accounts

[U.S. Dept. of Labor Retirement Plans web site: <http://www.dol.gov/dol/topic/retirement/index.htm>]

This section is divided into four areas:

1. A general explanation of ERISA requirements
2. General guidelines when offering retirement plans
3. Individual plans established and funded by the investor
4. Employer-sponsored plans

Because of frequent changes to laws affecting contribution levels and other requirements or limitations, some details are not included in these general explanations; individual plans should be referenced for details.

Questions regarding retirement accounts should be referred to the appropriate marketing specialist or to Compliance.

9.14.1 Employee Retirement Income Security Act (ERISA)

This section provides a general overview of ERISA and how it affects pension and retirement accounts; it does not deal with the complex legal requirements of the Act. Legal counsel should be consulted regarding questions about ERISA and its affect on pension or retirement accounts.

9.14.1.1 Introduction

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

ERISA applies to all Internal Revenue Service-qualified pension and profit sharing plans and employee welfare benefit plans. Most IRA accounts, while not covered by ERISA, are subject to the prohibited transaction penalties. Limited exemptions apply to governmental (public employee) plans and certain offshore and church plans.

This section provides a general overview of ERISA. Because of the technical and legal nature of ERISA, questions should be referred to Compliance or legal counsel.

9.14.1.2 Key Definitions

A "fiduciary" is generally anyone with discretionary authority or control over the management of a plan, the administration of the plan, or the disposition of plan assets. Fiduciaries must comply with certain statutory duties which include prudence and diversification of investments and the duty to act in accordance with the governing instruments of the plan.

A person or entity providing services to an ERISA plan is considered a "party-in-interest" to the plan. This status generally applies to broker-dealers providing traditional brokerage services to ERISA plans. SAMCO's role in relation to ERISA plan accounts generally is as a party-in-interest unless SAMCO contracts to provide investment management services or other services where SAMCO would become a fiduciary to an ERISA plan.

9.14.1.3 Permissible Transactions

Generally, trading in ERISA accounts is subject to the "Prudent Investor Rule" which is discussed in the next section. Allowable transactions are governed by ERISA (and related Department of Labor and IRS rulings), the investment policy of the ERISA plan, and trading guidelines in a managed account program or other trading program if such a program is used.

Some types of transactions (such as margin or certain option transactions) are associated with added risk, and it may be necessary for Compliance to review the plan to determine whether the type of transaction is permissible.

9.14.1.4 Prudent Investor Rule And Diversification

Trading in ERISA accounts is subject to the "prudent investor" rule (also known as the Prudent Man Rule) which is a standard that is generally understood to mean that individuals involved with investment decision-making act with the same care, skill, prudence and diligence as a prudent man in the same capacity. This measure is not judged on the risk of a single investment but by the investment's relationship to the overall portfolio.

ERISA also requires that investments in a covered plan be diversified to minimize the risk of large losses unless it is clearly prudent not to do so.

9.14.1.5 Prohibited Transactions

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

9.14.1.6 General Requirements When Dealing With ERISA Plans

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

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

9.14.1.7 Disclosures To Plans

[ERISA Section 408(b)(2); Dept. of Labor Fact Sheet: <http://www.dol.gov/ebsa/newsroom/fs408b2finalreg.html>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Plan contracts or arrangements • Information regarding services provided and charges for services

Frequency	<ul style="list-style-type: none"> • Disclosures - reasonably in advance of the date the contract or arrangement is entered into and extended or renewed • Changes or errors in disclosures - as required (see below)
Action	<ul style="list-style-type: none"> • Identify plans and services subject to 408(b)(2) requirements • Assemble information necessary to make required disclosures • Provide disclosures at time of initial contract/arrangement and when changed, errors are identified, or contracts/arrangements are terminated • Respond to fiduciaries/plan administrators when additional information is requested
Record	<ul style="list-style-type: none"> • Covered plans • Disclosures provided including dates provided

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

9.14.1.7.1 Definitions

Covered plan: An ERISA-covered defined benefit and defined contribution pension plan. Does not include simplified employee pension plans (SEPs), SIMPLE retirement accounts, IRAs, employee welfare benefit plans, and certain annuity contracts and custodial accounts described in ERISA Code section 403(b).

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

- ERISA fiduciary service providers to a covered plan or to a "plan asset" vehicle in which such plan invests
- Investment advisers registered under Federal or State law
- Record-keepers or brokers who make designated investment alternatives available to the covered plan (e.g., a "platform provider")
- Providers of one or more of the following services to the covered plan who also receive "indirect compensation" in connection with such services:
 - Accounting, auditing, actuarial, banking, consulting, custodial, insurance, investment advisory, legal, recordkeeping, securities brokerage, third party administration, or valuation services

9.14.1.7.2 Required Disclosures

Disclosures include:

- Description of services
- If applicable, that the services are provided in the role of fiduciary
- Compensation, including:
 - Description of all direct compensation either in aggregate or by service to be received
 - Indirect compensation expected to be received

- Description that compensation will be paid among related parties including identification of payers and recipients of compensation
- Description of any compensation to be received in connection with termination of the contract or arrangement and how any prepaid amounts will be calculated and refunded upon termination
- Recordkeeping services, if applicable, including direct and indirect compensation related to such services or, if not explicitly compensated, a reasonable and good faith estimate of the cost to the covered plan of such services
- Manner of receipt of the compensation
- Fiduciary services provided and related compensation
- Recordkeeping and brokerage services with respect to each designated investment alternative for which recordkeeping or brokerage services are provided

9.14.1.7.3 Timing Of Disclosures

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

9.14.1.8 Disclosures To Plan Participants

[ERISA Section 404(a)(5); SEC no-action letter to the Department of Labor dated October 26, 2011: <http://www.sec.gov/divisions/investment/noaction/2011/do1102611-482-hm; FINRA Regulatory Notice 12-02>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Plans for participant-directed individual account plans • Performance and cost information required to be disclosed
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Determine if SAMCO and any firm-prepared materials for plan participants are subject to disclosure requirements • Assemble information necessary to make required disclosures • If subject investments are investment companies, contact Compliance to determine whether materials must be filed with FINRA (written materials that conform to the ERISA rule requirements are not required to be filed per the SEC no-action letter) • Provide disclosures to participants or to plan administrator for distribution to participants
Record	<ul style="list-style-type: none"> • Disclosures provided including when and to whom provided

ERISA Rule 404(a)(5) requires the disclosure of certain plan and investment-related information, including performance information, to participants and beneficiaries in participant-directed individual

account plans. Information is required to be presented in a comparative chart format to enable participants to make an informed decision when managing their accounts.

If SAMCO compiles and/or provides the required information, it will comply with the requirements of Rule 404(a)(5). Where the investment alternatives include investment companies subject to other SEC and FINRA rules regarding communications with the public, the disclosures will comply with those requirements or exemptions to requirements.

9.14.2 General Guidelines When Offering Retirement Plans

Plans differ depending on the law under which they are established. Differences include limits on contributions, tax deductibility, costs, types of plan sponsors (employer or otherwise), and who may participate. The following sections provide general explanations of various types of common retirement accounts. Some of the general guidelines that apply to retirement plan sales include the following. Specific plans should be consulted for limitations and requirements.

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

9.14.3 Individual Retirement Accounts (IRAs)

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Plan applications • New account applications • Transaction reports • Proposed marketing presentations
Frequency	<ul style="list-style-type: none"> • As required - opening accounts • As required - review and approve/disapprove marketing presentations • Daily - review of transactions • Ongoing - provide training
Action	<ul style="list-style-type: none"> • Review applications/new account forms for consistency of investment objectives with proposed investments/rollovers • Review transactions for consistency with investment objectives and take corrective action when necessary which may include contact with RR to discuss transactions vs. objectives; contact with customer; contact with Compliance; adjustments to current or future investments • Review marketing presentations/seminar presentations regarding accuracy of information to be presented, experience/knowledge of RR making presentation and approve (making adjustments if necessary or disapprove) • Provide training when new plans/products are offered to retirement accounts and when 401(k) plan participants will be targeted for marketing efforts
Record	<ul style="list-style-type: none"> • Plan/new account documents • Transactions reviewed including notes of action taken, if any

	<ul style="list-style-type: none"> • Marketing presentations/seminars with approval or disapproval • Records of training regarding products/services, who attended, and when training was provided
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IRAs are established by individuals through a plan sponsor; following are key features:

- Annual contributions are limited by law
- Older investors have higher contribution limits under a "catch-up" provision
- Contributions may or may not be tax deductible, depending on the IRA owner's income level
- Contributions are from earned income (other than contributions to a non-working spouse's IRA)
- Certain types of investments such as precious metals are not permitted in an IRA
- Early withdrawals (prior to age 59 1/2) may result in tax penalties
- Owners of traditional IRAs are required to begin withdrawing by the year following the year the owner turns 70 1/2

There are multiple types of IRAs including:

- Traditional IRAs; contributions may or may not be tax deductible depending on the IRA owner's income
- Roth IRA:
 - all contributions are in after-tax dollars
 - withdrawals are not taxed at the time of withdrawal if the IRA owner is at least 59 1/2 years old and the Roth IRA has been open 5 years or longer
 - some high wage earners are not eligible to open Roth IRAs
 - no mandatory withdrawals after age 70 1/2
- Individual retirement annuity; a traditional or Roth IRA set up with a life insurance company through the purchase of a special annuity contract
- Simplified Employee Pension (SEP-IRA); a traditional IRA set up by an employer for employees; limitations on contributions apply
- Spousal IRA; traditional or Roth IRA funded by a married taxpayer in the name of a spouse who earns less than \$2000 annually
- Rollover IRA: funded with money that is already in a qualified retirement plan; allows moving the money without owing any tax at the time of the rollover (assuming the requirements for a rollover are met)

9.14.4 Employer-Sponsored Plans

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

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

9.14.4.1 401(k) Plans

- Established by corporations
- Permit their employees to make contributions through payroll deductions from pre-tax income [traditional 401(k) plans]; tax is applied when withdrawals are taken
- Roth 401(k) plans permit employees to make contributions through payroll from after-tax dollars; there is no tax on withdrawals made after age 59 1/2 and if the Roth 401(k) has been open 5 years or longer

- Both traditional and Roth 401(k) plans can be rolled over to an IRA (or a new employer's plan, if the plan permits) if the investor leaves the company
- No mandatory withdrawals for Roth 401(k) plans; mandatory scheduled withdrawals apply to traditional 401(k) plans

9.14.4.1.1 Limitations On Advice

[Pension Protection Act of 2006 Title VI; U.S. Department of Labor Field Assistance Bulletin No. 2007-01]

Providing investment advice to 401(k) plan sponsors and participants is subject to strict limitations and requirements. Providing investment advice places the RR in the role of a fiduciary which creates the legal liabilities associated with fiduciaries.

RRs are limited to offering Firm-approved educational material and third-party advisory plans offered through SAMCO.

9.14.4.2 403(b) Plans

[IRS 403(b) publication: <http://www.irs.gov/publications/p571/ch01.html>]

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

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

Features include:

- Individuals cannot establish 403(b) accounts; only employers may set up accounts
- For non-Roth plans:
 - Employees make pre-tax contributions and employers sometimes match contributions
 - Tax on contributions and earnings and gains on investments are paid when the investor begins withdrawing funds
 - Mandatory withdrawals after age 70 1/2
- If the plan is a Roth contribution plan, tax is paid on contributions to the plan but withdrawals are not taxed; no mandatory withdrawals
- Some 403(b) plans impose steep surrender charges

9.14.4.3 457 Plans

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

- Pre-tax income is contributed
- No tax on contributions; withdrawals are subject to tax
- Technically the portion of salary contributed to the plan is not owned by the employee; the plan sponsor owns all of the 457 plan assets which are held in trust for the employee in an account set up in the employee's name
- Mandatory withdrawals after age 70 1/2
- No early withdrawal tax penalties if funds are paid to the employee when leaving the job prior to reaching age 59 1/2; withdrawal is subject to normal income tax
- May be rolled over to an IRA or a new employer's plan to retain tax-deferred status

9.14.4.4 SIMPLEs (Savings Incentive Match Plans For Employees)

- Offered by small companies with 100 or fewer employees who earn at least \$5,000 each during the year

- Less complicated to set up and administer than 401(k) or 403(b) plans
- Two types: SIMPLE IRA and SIMPLE 401(k), both with same contribution limits and catch-up contributions for people 50 or older
- Employer must contribute to the plan in one of two ways, a fixed contribution or a matching contribution
- Account must be open for 2 years before the employee can move the money or take it out; early withdrawal is subject to significant tax penalties

9.15 Foreign Accounts

Accounts for residents of foreign countries may be subject to special requirements under securities laws of the foreign country. Before opening an account for a person or entity residing in a foreign country, contact Compliance for further information regarding any special restrictions or requirements.

9.16 Death Of A Customer

When a customer dies, the account assets owned by the deceased person may become subject to a will, estate laws, and other governing laws or documents. The assets are, therefore, frozen in the account until necessary documents are received and legal distribution has been determined. Joint accounts and other accounts where the deceased person is a joint owner with others may be subject to certain distribution requirements depending on the styling of the account.

When a customer dies, the RR should:

- immediately notify Operations
- consider assets in the deceased person's account as "frozen" until distribution of assets has been determined, *i.e.*, accept no orders and do not authorize sending of securities or funds from the account
- cancel all open orders

9.17 Customer Portfolio And Cross-Reference Records

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Electronic customer portfolio and security cross-reference records
Frequency	<ul style="list-style-type: none"> • Semi-annually
Action	<ul style="list-style-type: none"> • Review records for: <ul style="list-style-type: none"> ○ Completeness ○ Patterns of accumulating securities (cross-reference) ○ Suitability (customer portfolio)
Record	<ul style="list-style-type: none"> •

SAMCO provides electronic customer portfolio and security cross-reference information to RRs. The customer portfolio is a cumulative, chronological record of securities transactions, by customer. The security cross-reference is a cumulative, chronological record of transactions, by security, that identifies the customers and details of each transaction.

10 ORDERS

This chapter provides policies and guidelines for the entry and handling of customer orders. References to "order records" in this chapter includes manual order tickets and electronic order records, where appropriate.

10.1 Acceptance And Prompt Entry Of Orders

Orders should be accepted only from the beneficial owner of an account or their authorized agent. Authorized agents would include anyone holding third-party power to act on the customer's behalf such as a trustee, court-appointed guardian, authorized investment adviser, *etc.* Orders accepted from an unauthorized third party may result in rescission of the transaction and assigning the loss to the RR. For example, orders should not be accepted from a husband, on behalf of his wife's account, unless the wife has signed a trading authorization giving her husband authority to act on her behalf.

If an employee receives a telephone order from someone they do not recognize or know to be the owner of the account or person authorized to act on behalf of the account, identity should be requested before accepting the order. Identity verification information would include:

- account number; and
- social security number; or
- other identifying information on record such as mother's maiden name.

RRs are obligated to transmit customer orders to the appropriate order execution desk or order facility promptly after receipt. Orders cannot be held for future entry; a limit order should be entered if the customer does not want to effect the transaction at the current market price.

10.2 Orders Requiring Approval

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Daily Transaction Report
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Instruct wire operator or other order entry person of orders requiring approval• Have wire operator or order entry person post list in the order entry area• Review and approve or disapprove orders• In review of daily order records or Daily Transaction Report, identify orders requiring approval but not submitted for approval• Remind RRs and order entry person of requirement for order approval when exceptions are noted• If problem persists, take additional corrective action
Record	<ul style="list-style-type: none">• Initials on order records• Initials on Daily Transaction Report• Notes of action taken on Daily Transaction Report, if appropriate

Certain orders require approval because of rule requirements or SAMCO policy. This section summarizes the orders requiring approval, when approval is required, and the designated supervisor.

ORDERS REQUIRING APPROVAL

Type of Order	When Approval Required	Designated Supervisor
First order for new account	Prior to entry	Branch Manager
Buy or sell order for 10,000 or more shares	Prior to entry	Branch Manager
Buy or sell order for \$1,000,000 or more par value of bonds	Prior to entry	Branch Manager
Buy of non-NASDAQ OTC security priced less than \$5.00/share	Prior to entry	Branch Manager
Mutual fund switch orders	Same day as entry	Branch Manager
Mutual fund multiple purchases (purchases of multiple unrelated funds in same account)	Same day as entry	Branch Manager
Short sales	Prior to entry	Branch Manager
Discretionary	Same day as execution	Branch Manager
Discretionary option orders	Same day as execution	Compliance
Buy of 25 or more short-term options (options expiring within same month as order entry)	Prior to entry	Branch Manager
Buy of \$10,000 or more short-term options	Prior to entry	Branch Manager
Opening option transaction of 100 or more contracts	Prior to entry	Branch Manager
Spread order of 100 or more contracts on the same day (includes group orders)	Prior to entry	Branch Manager
Buy or sell orders for research employee accounts	Prior to entry	Research Manager
Buy or sell orders for Investment Banking employee accounts	Prior to entry	Investment Banking Manager
Buy or sell orders for trading personnel	Prior to entry	Designated Trading Manager

10.3 Solicited And Unsolicited Orders**10.3.1 Definition Of Solicited Order**

When a transaction is recommended to a customer and the customer enters an order as a result of that recommendation, the resulting order is considered to be solicited. Other actions that may result in an order being deemed solicited include the mailing of a research report or other written communication for the purpose of encouraging the customer to act on the information provided or sending a prospectus on a new issue.

10.3.2 Solicited Orders Should Be Indicated

Customer orders that are solicited should be so marked on the order ticket for the transaction.

10.3.3 Prohibited Solicitations

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Order records Daily Transaction Report
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> Instruct wire operator or other order entry person to watch for orders in restricted securities or other prohibited solicited orders Identify orders contrary to solicitation limitations If prohibited solicitations are identified, take corrective action: <ul style="list-style-type: none"> Solicitations contrary to SAMCO's Restricted List may require cancellation; contact Compliance for guidance Other exceptions may require different actions including cancellation of the transactions, removal of commissions, reminder to RRs, <i>etc.</i>
Record	<ul style="list-style-type: none"> Initials on order records Initials on Daily Transaction Report Records of cancelled trades maintained with daily orders Other records as appropriate (reminder memo to RR, notes to Branch Manager Log, <i>etc.</i>)

RRs may NOT solicit transactions listed below:

- Securities included on the Firm's Restricted List
- When securities are being sold under rule 144, purchasers may not be solicited

10.4 Suitability Of Recommendations

[FINRA Rule 2111; FINRA Regulatory Notice 12-25 and 12-55; FINRA Suitability web page:
<http://www.finra.org/industry/issues/suitability/>; SIFMA Institutional Suitability Certificate:
<http://www.sifma.org/services/standard-forms-and-documentation/cross-product/>]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> New account records Order records Daily Transaction Report Available reports Customer monthly transaction records Institutional Suitability Certificates
Frequency	<ul style="list-style-type: none"> Daily - review transactions Monthly - review of accounts When required - review/approve new accounts Periodically - training for RRs
Action	<ul style="list-style-type: none"> Obtain Institutional Suitability Certificates from institutional customers Review customer orders for suitability which includes factors among

	<p>those listed below and other information known about the customer:</p> <ul style="list-style-type: none"> ○ Customer new account information ○ Other securities held in the customer's account ○ Other information regarding the account such as whether the account is managed by an investment adviser or uses other advisers or consultants in making investment decisions ○ Transaction information from daily transaction reports and monthly transaction records ○ Information obtained from the RR ○ Information obtained by contacting the customer <ul style="list-style-type: none"> • Refer to new account records when necessary to identify investment objectives and other customer information • Review suitability documentation recorded by the RR and pertaining to a recommended investment or strategy • Confer with RR regarding suitability questions • Confer with Compliance when necessary • Contact customer when necessary to confirm customer's understanding of and agreement with transactions • Modify or restrict future transactions, as appropriate • Train RRs regarding suitability obligations
Record	<ul style="list-style-type: none"> • Initials on order records and Daily Transaction Report • Institutional Suitability Certificates • Suitability documentation on order records or in RR records • Training including who attended, when it occurred, and subjects included

10.4.1 General Requirements

RRs must have a reasonable basis for believing that a recommended transaction or investment strategy involving a security or securities is suitable for the customer. Recommendations should be based on information obtained through reasonable diligence to ascertain the customer's investment profile which is recorded in the account records, generally at the time the account is opened and updated when necessary. The customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose in connection with the recommendation.

10.4.1.1 Investment Strategy

[FINRA Rule 2111.03]

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

- a. General financial and investment information, including (i) basic investment concepts, such as risk and return, diversification, dollar cost averaging, compounded return, and tax deferred investment, (ii) historic differences in the return of asset classes (e.g., equities, bonds, or cash) based on standard market indices, (iii) effects of inflation, (iv) estimates of future retirement income needs, and (v) assessment of a customer's investment profile;
- b. Descriptive information about an employer-sponsored retirement or benefit plan, participation in the plan, the benefits of plan participation, and the investment options available under the plan;

- c. Asset allocation models that are (i) based on generally accepted investment theory, (ii) accompanied by disclosures of all material facts and assumptions that may affect a reasonable investor's assessment of the asset allocation model or any report generated by such model, and (iii) in compliance with FINRA Rule 2214 (Requirements for the Use of Investment Analysis Tools) if the asset allocation model is an "investment analysis tool" covered by FINRA Rule 2214; and
- d. Interactive investment materials that incorporate the above.

10.4.1.2 Components Of Suitability Obligations

[FINRA Rule 2111.05]

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

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

Another approach to suitability is portfolio-based that considers the entirety of an investor's investments (or at least those known to the RR). Where a customer has multiple accounts with SAMCO and those accounts have inconsistent investment objectives, it is necessary to confirm the customer's intent to use different investment profiles or factors for the different accounts. Notation should be made to the customer's account record and on the order record or the recommendation.

10.4.1.3 Customer Financial Ability

[FINRA Rule 2111.06]

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

10.4.1.4 Specific vs. General Recommendations

Suitability obligations apply to specific recommendations as opposed to general investment advice (*i.e.*, a recommendation generally to invest in fixed income securities vs. recommending a specific bond). However, recommending a specific strategy (such as use of a bond ladder, day trading, margin, *etc.*) would be subject to suitability obligations. The narrower the scope of the recommendation, the more likely it is subject to suitability obligations.

10.4.1.5 Allocation Models And Educational Materials

To avoid suitability obligations, allocation models or educational materials cannot include recommendations of particular securities such as those comprising the asset allocation model. An explicit recommendation to "hold" specific securities in an asset allocation model constitutes a recommendation. FINRA has indicated that as an allocation recommendation becomes narrower and more specific, suitability obligations may apply.

10.4.1.6 Hold Recommendations

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

10.4.1.7 Complex Products

The suitability of recommendations of complex investments should be documented on the order record or in the RR's records. FINRA provided examples of complex products to include: asset-backed securities secured by a pool of collateral; unlisted REITs; investments with an embedded derivative component; products with contingencies in gains or losses; structured notes with "worst of" features; and investments linked to the performance of markets that may not be understood by investors.

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

10.4.1.8 Documenting Suitability

It is important to document suitability, particularly where there may be differing investment profiles when a customer has multiple accounts and when recommending a complex product. RRs should document the basis of their recommendations on the order record and/or in the RR's records such as Daytimers, electronic records, *etc.*

10.4.1.9 Understanding Recommended Investments

It is important that the RR understands the investment being recommended. SAMCO provides training and/or other materials to describe the features of certain investments offered by SAMCO.

If the RR does not understand a security or investment strategy, it is the RR's obligation to contact his or her supervisor, the product manager, or Compliance to receive further information before making a recommendation.

10.4.2 Automated Investment Advice

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Software providing investment advice• Investor information provided via the software
Frequency	<ul style="list-style-type: none">• Quarterly: test software

Action	<ul style="list-style-type: none"> • Test software to confirm that: <ul style="list-style-type: none"> ○ Information obtained from investors is sufficient ○ Resulting recommendations are consistent with the investment information provided by the investor
Record	<ul style="list-style-type: none"> • Records of testing and changes to the program, if appropriate

SAMCO offers automated investment advice through software tools available to retail investors. RRs who follow up with investors who use the tool should confirm that the investor's financial profile is accurate and recommended investments are consistent with the investor's profile.

10.4.3 Non-Conventional Investments (NCIs)

[FINRA Notice to Members 03-71]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Non-conventional investments and related information
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Conduct due diligence about the product • Prepare or obtain disclosure information for prospective investors • Provide RR training about NCIs • Review customer transactions in NCIs for suitability • Confirm required disclosure documents were provided • When necessary, consult with RR regarding suitability • When necessary, contact customer to confirm suitability and/or cancel transaction if purchase is inappropriate
Record	<ul style="list-style-type: none"> • New product due diligence information is retained by the new product supervisor or records of the New Product Committee, if a committee has been appointed. • Written disclosures, when available, are retained in the product file. • Written subscription agreements or other investor agreements are retained in the product file or the customer's file. • Records of training material or programs are retained in the product file and/or Continuing Education files or compliance meeting files. • Record of review of transactions is included in order records.

Certain investments may have features and complexities not as easily understood by investors as traditional investments such as stocks or bonds. Non-conventional investments (NCIs) such as asset-backed securities, distressed debt, and derivative products may warrant closer scrutiny to determine suitability of the security for the specific potential investor.

The RR recommending a non-conventional investment is responsible for understanding the features of the NCI and making a suitability determination considering the potential investor's investment objectives and financial background. The RR is also responsible for providing information to the

prospective investor, including balanced disclosure of the risks and rewards, so the investor may make an informed decision about the potential investment. Where prospectuses or other disclosure documents are available, it is the RR's responsibility to provide the written disclosure to the prospective purchaser. RRs must also obtain signed subscription or other agreements from NCI investors, where required.

10.4.3.1 Hybrids

Hybrids have the characteristics of both debt and equity. Hybrids may offer higher yields, which are attractive to investors. However, since hybrids may be complex, investors must be familiarized with the risks and features of the particular hybrid being considered. The investor's ability to understand the risks is a factor in determining suitability.

Features of some hybrids include the following:

- Bonds designed for individual investors tend to carry a low face value, usually \$25 or \$50 rather than \$1,000 value on bonds for institutional investors.
- The bond's terms may include deferral of interest payments because of changes in rates or other factors included in the bond's terms.
- Hybrids tend to have a fixed maturity, with very long maturities (*i.e.*, 50 years or more) which makes the securities assume risk similar to stock.
- Like stockholders, hybrid holders are at greater risk of receiving nothing if the issuer files for bankruptcy protection.
- Regulators and debt-rating services differ on whether hybrids should be booked and treated like bonds or stocks.
- The myriad of variations make it hard to determine the value of the securities and gauge their risk.

10.4.4 Institutional Accounts

[FINRA Rule 2111(b) and 2111.07; SIFMA Institutional Suitability Certificate: <http://www.sifma.org/services/standard-forms-and-documentation/cross-product/>]

There is an exemption from suitability obligations for certain institutional accounts. Factors to consider when determining the scope of SAMCO's suitability obligation when making recommendations to institutional customers include: (1) the customer's capability to evaluate investment risk independently both in general and with regard to particular transactions and investment strategies involving a security or securities, and (2) the institutional customer's affirmation indicating that it is exercising independent judgment in evaluating the recommendations. An institutional customer may indicate that it is exercising independent judgment on a trade-by-trade basis, on an asset-class-by-asset-class basis, or in terms of all potential transactions for its account. Institutional accounts will be requested to provide the Institutional Suitability Certificate to comply with the exemption.

Where an institutional customer has delegated decision making authority to an agent, such as an investment adviser or a bank trust department, these factors are applied to the agent.

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

10.4.5 Recommendations Of OTC Equity Securities

[FINRA Rule 2114]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Daily Transaction Report • OTC Equity Securities Suitability Forms
Frequency	<ul style="list-style-type: none"> • Daily - review transactions for potential solicitations in low-priced securities • As required - review Forms
Action	<ul style="list-style-type: none"> • Review daily transactions to identify solicited transactions in OTC equity securities • For identified transactions, determine whether a Form was previously submitted and approved • For non-approved transactions, consult with Compliance regarding corrective action which may include cancellation of transactions • For submitted Forms, review financial statements, determine required information is included with the Form, approve or disapprove, and notify the RR
Record	<ul style="list-style-type: none"> • Records of daily reviews are included on reviews of Daily Transaction Reports including the reviewer's initials and date of review and any action taken • Copies of Forms with attachments

Recommendations to purchase or sell short OTC equity securities require completion of SAMCO's OTC Equity Securities Suitability Form **prior to** making the recommendation. Securities not subject to this requirement are listed in *Exemptions* at the end of this section. An "OTC equity security" is defined as any non-exchange-listed security and certain exchange-listed securities that do not otherwise qualify for real-time trade reporting.

OTC equity securities as defined in this section often trade at low prices and may represent a higher risk to the purchaser depending on where and how the security trades. For example, a thinly-traded OTC stock may be subject to volatile price changes and may be difficult to liquidate. There is added risk when the security is purchased on margin, since some of these securities may be difficult to liquidate.

10.4.5.1 OTC Equity Securities Suitability Determination

RRs have a higher obligation to determine suitability when recommending the purchase or short sale of OTC equity securities. This includes obtaining current financial statements (balance sheet, P&L, *etc.*) and "current material business information" which includes information available that relates to material events that occurred in the 12 months prior to the recommendation. "Current material business information" is defined as information that is ascertainable through the reasonable exercise of professional diligence and that a reasonable person would take into account in reaching an investment decision. If the issuer is delinquent in its filings (SEC, foreign authority, bank, or insurance regulator), an inquiry must be made about the circumstances about the failure to make current filings.

Prior to recommending a security subject to this policy, the RR is required to complete a copy of the OTC Equity Securities Suitability Form and submit the form and the required financial statements and material business information (and information if the issuer is delinquent in its filings) for review and approval by the RR's designated supervisor. Upon approval, the RR may recommend the security to customers. Failure to complete the Form and obtain the required approval may result in cancellation of the transactions and assessment of resulting losses to the RR.

10.4.5.2 Exemptions

The requirement to submit the form and obtain prior approval does not apply to the following:

- long sales
- transactions meeting the requirements of Rule 504 of Regulation D and transactions with an issuer not involving a public offering under Section 4(2) of the Securities Act
- recommendations to institutional buyers as defined in FINRA Rule 4512(c)
- recommendations to a QIB (qualified institutional buyer) under Rule 144A
- recommendations to a "qualified purchaser" under Section 2(a)(51) of the Investment Company Act
- transactions in the securities of issuers with at least \$50 million in assets and \$10 million in shareholder equity
- transactions in securities of a bank or insurance company subject to regulation by state or federal bank or insurance authority
- transactions in a security that has a bid price published in a quotation medium of at least \$50 per share. If the security is a unit composed of one or more securities, the bid price of the unit divided by the number of shares of the unit that are not warrants, options, rights, or similar securities must be at least \$50.

10.4.6 Investing Liquefied Home Equity

[FINRA Notice to Members 04-89]

Increasing home prices and refinancings have provided homeowners with access to funds, some going into investments. Recommending or facilitating liquefying of home equity to purchase securities is not suitable for all investors. RRs are obligated to consider whether investing these funds is suitable including the following factors:

- How much equity does the investor have in the home?
- What is the level of equity being liquefied for investments?
- How will the investor meet increased mortgage obligations?
- Is the mortgage or home equity loan at a fixed or variable rate?
- What is the investor's risk tolerance with respect to the funds being invested?
- What is the investor's overall debt burden?
- What is the sustainability of the value of the investor's home?

The following is required **prior to** recommending investing home equity funds:

- The RR's supervisor must approve the liquefying of home equity and resulting investment

10.4.7 Proprietary Products

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Proprietary products
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Subject new proprietary products to the new product review procedure• Review transactions in proprietary products for suitability and take corrective action when necessary• Provide training to RRs

Record	<ul style="list-style-type: none"> • Records of training provided to RRs • Daily transaction records including date of review and initials of reviewer
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Products developed by SAMCO, or an affiliate of SAMCO, may be offered for sale to customers. New proprietary products are subject to the new product review described in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*.

RRs are obligated to:

- determine that a proprietary product is suitable for the customer, including consideration of comparable non-proprietary products and related costs to the customer, and
- make recommendations suitable for the customer regardless of the compensation to the RR.

10.5 Fair Prices

[NASD Rule 2400; FINRA Regulatory Notice 08-36]

SAMCO is required to make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions. In transactions (whether listed or unlisted) between SAMCO and a customer where SAMCO sells from or buys into its own account, there is an obligation to effect the transaction at a price that is fair considering all relevant circumstances including market conditions; expenses involved and reasonable profit for SAMCO; and the expense of executing the order and value of service provided.

10.5.1 Commissions

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 SAMCO
- the amount of any other compensation received by SAMCO in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

10.5.2 Mark-Ups And Mark-Downs

[NASD IM 2440-1 and 2440-2]

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 SAMCO 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
- risk to SAMCO in handling the transaction
- the nature of SAMCO's business

- any other relevant facts at time of execution

For mark-ups/mark-downs of debt securities (other than municipals), refer to the section *Mark-Ups And Mark-Downs* in the chapter *CORPORATE FIXED INCOME SALES AND TRADING*.

10.5.3 Prohibition Against Trading Ahead Of Customer Orders

[SEC Regulation NMS Rule 600(b)(30)(ii); FINRA Rule 5320]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order records/reports
Frequency	<ul style="list-style-type: none"> • Reviews: daily, weekly or monthly depending on reports available • Disclosures: when account opened and annually
Action	<ul style="list-style-type: none"> • Review for order protection • Provide disclosures (institutional accounts, no-knowledge exception) at account opening and annually thereafter
Record	<ul style="list-style-type: none"> • Order records/reports including date reviewed, reviewer's initials, action taken, if appropriate • Records of providing disclosure at account opening and annually • OTC Trading Manager Checklist

A FINRA member firm that accepts and holds an order in an equity security from its own customer or the customer of another broker-dealer without immediately executing the order is prohibited from trading that security on the same side of the market for its own account at a price that would satisfy the customer order, unless it immediately executes the customer order up to the size and at the same price or better price at which it traded for its own account. Pending orders are executed on a first-in/first-out basis (FIFO). "Customer order" in this section applies to orders for SAMCO's customers as well as customers of other broker-dealers.

The rule restrictions apply to orders handled during normal market hours and outside normal market hours (if SAMCO and customer agree to processing the order outside normal market hours).

10.5.3.1 Exceptions

There are certain exceptions to the prohibition against trading ahead of customer orders.

Large orders and institutional accounts. Regarding orders for institutional accounts [as defined in FINRA Rule 4512(c)] or orders of 10,000 shares or more (unless the orders are less than \$100,000 in value), SAMCO may trade a security on the same side of the market for its own account at a price that would satisfy the customer order providing SAMCO has provided clear and comprehensive written disclosure to the customer when the account is opened and annually thereafter that:

- Discloses that SAMCO may trade proprietarily at prices that would satisfy the customer order, and
- Provides the customer with a meaningful opportunity to opt in to the Rule 5320 protections with respect to all or any portion of the order. If the customer doesn't opt in to the Rule 5320 protections, SAMCO will presume the customer has consented to the exception. In lieu of

written disclosure SAMCO may provide oral disclosure and obtain the customer's consent on an order-by-order basis, which will be documented on the order for which consent is obtained.

Instead of written disclosure at account opening and annually after, oral disclosure may be made and consent obtained on an order-by-order basis and recorded on the order.

No-knowledge exception. Regarding NMS stocks and where SAMCO has effective internal controls and information barriers that prevent one trading unit from obtaining knowledge of customer orders held by a separate trading unit, the other trading units may, in a proprietary capacity, continue to trade at prices that would satisfy the customer orders held by the separate trading unit. A description of how customer orders are handled and when SAMCO's proprietary account may trade at prices that would satisfy the customer's order will be provided at account opening and annually thereafter. For OTC equity securities where SAMCO has similar controls to prevent a non-market-making trading unit from obtaining knowledge of customer orders held by a separate trading unit, the non-market-making trading unit may trade in a proprietary capacity at prices that would satisfy the customer's order.

Riskless principal exception. Rule 5320 obligations do not apply to SAMCO's proprietary trades if the trades are for the purpose of facilitating the execution, on a riskless principal basis, of an order from a customer ("facilitated order") providing that SAMCO:

- Identifies the order as riskless principal when reporting to FINRA (or other SRO); and
- Has written policies and procedures for compliance with FINRA rules regarding riskless principal transactions. Refer to the section *Riskless Principal Transactions* in this chapter.

ISO exception. The restriction against proprietary trades ahead of customer orders does not apply to trading for SAMCO's account that is the result of an ISO (Intermarket Sweep Order) routed in compliance with Regulation NMS where the customer order is received after SAMCO routed the ISO.

Odd lot and bona fide error transaction exceptions. The restrictions do not apply to a proprietary trade that is (1) to offset a customer order that is in an amount less than a normal unit of trading; or (2) to correct a bona fide error.

10.5.4 Best Execution

[SEC Regulation NMS; FINRA Rule 5310]

SAMCO has an obligation to provide best execution for its customers' orders, whether executed internally or routed to other broker-dealers. "Best execution" refers to using reasonable diligence to determine the best market to buy or sell a security and obtaining a price as favorable as possible under prevailing market conditions. SAMCO's obligation to provide best execution also extends to handling and executing orders for customers of other broker-dealers routed to SAMCO (but not orders that simply execute the order against SAMCO's quote).

See Section 13.2 for the policies and procedures relating to the Firm's best execution obligations for corporate fixed income securities.

Factors for using "reasonable diligence" include:

- the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- the size and type of transaction;
- the number of markets checked;
- accessibility of the quotation; and
- the terms and conditions of the order.

The term "markets" is broadly defined, including market centers that are trading a particular security.

10.5.4.1 Regular And Rigorous Review Of Execution Quality

[FINRA Rule 5310.09]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• SAMCO's Rule 605 Market Center Reports• Order records/reports for customer and proprietary accounts• Clearing firm or other agent's report of statistics, review rationale, findings (if applicable)
Frequency	<ul style="list-style-type: none">• Quarterly
Action	<ul style="list-style-type: none">• Conduct regular and rigorous reviews of internal executions (if applicable) and order routing to evaluate compliance with best execution responsibilities including:<ul style="list-style-type: none">○ Review of data regarding prices and executions○ Review pre-open orders including single or midpoint pricing as factors to consider○ Review of aggregate or order-by-order routing of orders to review quality of executions○ Determine whether to adjust order routing to improve executions○ Review riskless principal transactions; customer block-sized orders; orders with special pricing terms and conditions; other order types• Where order flow is routed to a BD acting as agent for SAMCO (clearing firm, other executing BD):<ul style="list-style-type: none">○ Obtain other BD's report of statistics, rationale of review, and findings○ Review data to confirm agent is using reasonable diligence to provide best execution○ Where deficiencies are noted, consult with agent and, if best execution is determined to be deficient, consider transferring order flow to another BD
Record	<ul style="list-style-type: none">• Records of reviews of internal or routed customer orders, if applicable• Records of reviews of agent's best execution reviews, action taken, if applicable

SAMCO conducts regular reviews of its execution quality to determine whether SAMCO is meeting its obligation for best execution of customer orders. This includes orders that are routed to other broker-dealers on an automated, non-discretionary basis as well as when SAMCO internalizes order flow.

Where SAMCO routes its order flow to another broker-dealer that has agreed to handle that order flow as agent for the customer (e.g., a clearing firm or other executing broker-dealer), SAMCO will rely on that broker-dealer's regular and rigorous review based on the statistical results and rationale of the review disclosed by the broker-dealer and reviewed by SAMCO.

10.6 Regulation NMS

Regulation NMS was adopted to strengthen the national market system for equity securities. It requires markets to interact in a way that permits orders to seek the best available market. Rule 611, the Order Protection Rule, is the primary rule that affects broker-dealers and requires broker-dealers to prevent "trade-throughs."

10.6.1 Key Definitions

[SEC Regulation NMS Rule 600]

Automated trading center: a trading center that:

- has implemented systems, procedures and rules to display automated quotations in compliance with Regulation NMS;
- identifies all quotations other than automated quotations as manual quotations;
- immediately identifies its quotations as manual quotations whenever it has reason to believe it is not capable of displaying automated quotations; and
- has adopted reasonable standards limiting when its quotations change from automated to manual quotations, and vice versa, to defined circumstances that promote fair and efficient access to its automated quotations.

Directed order: a customer order that the customer specifically instructs the broker or dealer to route to a particular venue for execution.

Intermarket sweep order (ISO): a limit order for an NMS stock that meets the following requirements:

- When routed to a trading center, the limit order is identified as an intermarket sweep order; and
- simultaneously with the routing of the ISO limit order, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of limit order to buy, for the NMS stock with a price that is superior to the limit price of the ISO limit order. These additional routed orders also must be marked "ISO."

An ISO is premised on the condition that the trading center or broker-dealer responsible for routing the ISO will have attempted to access all better-priced protected quotations. This exception facilitates the execution of certain types of orders, such as large block orders.

Market center: any exchange market maker, OTC market maker, alternative trading system, national securities exchange, or national securities association.

NMS security: any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options.

Protected quotation: a quotation in an NMS stock that:

- is displayed by an automated trading center;
- is disseminated pursuant to an effective national market system plan; and
- is an automated quotation that is the best bid or best offer of a national securities exchange (including NASDAQ) or the best bid or best offer of a national securities association.

To be protected, the quotation must be immediately and automatically accessible.

Trade-through: the execution of a trade as principal or agent during regular trading hours at a price inferior to protected quotations.

Trading center: a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.

10.6.2 Trade-Throughs

[SEC Regulation NMS Rule 611; SEC Division of Market Regulation Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Internal or third-party reports on NMS compliance
Frequency	<ul style="list-style-type: none"> Timeframes (daily, weekly, monthly, other) corresponding to available reports
Action	<ul style="list-style-type: none"> Review reports for trade-throughs For trade-throughs <ul style="list-style-type: none"> Review reason for trade-through Consult with trading/order desk personnel Take corrective action which may include: <ul style="list-style-type: none"> Correcting the trade which may include price improvement or cancellation of trade Training for trading personnel Review of order routing/execution systems Consultation with Compliance regarding other action
Record	<ul style="list-style-type: none"> Internal or third-party reports with records of action taken

Firms that route orders have the obligation to prevent trade-throughs, i.e., execution of orders at prices inferior to protected quotations. While the purpose of the NMS is to connect markets to afford orders the best available price, broker-dealers have obligations to seek the best available market. Order routers have three tools available to control the handling of orders to comply with Rule 611:

- a limit price (preclude execution at a price inferior to the limit)
- an immediate-or-cancel (IOC) designation (triggers the requirement for automated quotations and particularly that the trading center provide an immediate response to the order)
- an ISO designation (the BD routing the order assumes responsibility)

Exceptions for transactions that trade-through a protected quotation include:

- a transaction effected by the trading center solely to correct a bona fide error (records of facts and circumstances of the error must be maintained and the transaction recorded in the trading center's error account) [SEC Release No. 34-55884]
- an order that meets the terms and conditions of a "Print Protection Transaction" [SEC Release No. 34-55883]
- an order involving one or more NMS stocks that are components of a qualified contingent trade [SEC Releases No. 34-54389 and 34-57620]
- the trading center displaying the protected quotation that was traded through was experiencing a failure, delay or malfunction
- a trade that is not "regular way"
- single-priced opening, reopening, or closing transaction by the trading center

- a trade executed at a time when a protected bid was priced higher than a protected offer in the NMS stock
- an ISO order
- the trade was effected by a trading center that simultaneously routed an ISO order to execute against the full displayed size of any protected quotation that was traded through
- a trade that was not based on the quoted price of the NMS stock at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute was made
- the trading center displaying the protected quotation that was traded through had displayed, within one second prior to execution of the trade-through transaction, a best bid or offer for the NMS stock with a price that was equal or inferior to the price of the trade-through
- an order for which, at the time of receipt of the order, the trading center had guaranteed an execution at no worse than a specified price (with conditions)
- transactions in non-convertible preferred securities [SEC Release No. 34-57621]
- other exceptions published by the SEC

10.6.3 Best Execution

Complying with trade-through obligations does not supplant the requirement for best execution. SAMCO is still obligated to use reasonable diligence to obtain the best execution of customer orders and will continue to conduct best execution reviews of the quality of order routing including orders executed internally.

10.6.4 Intermarket Sweep Orders (ISOs)

When an order is designated as an ISO, the receiving trading center will execute the order without regard to any better-priced protected quotations at other trading centers. When SAMCO enters an ISO, it is required to route additional ISOs to execute against any better-priced quotations at other trading centers.

10.6.5 Third-Party Vendors

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Contract with third party • Reports available from third party
Frequency	<ul style="list-style-type: none"> • Upon inception and periodically at renewal - contract with third party • Timeframes (daily, weekly, monthly, other) corresponding to available reports • Quarterly - conduct best execution reviews
Action	<ul style="list-style-type: none"> • Review third party's order handling capabilities and ability to comply with Regulation NMS requirements • Execute contract with third party and review contract at time of renewal • Review reports for compliance with NMS • Where compliance is in question: <ul style="list-style-type: none"> ○ Confer with third party ○ Determine corrective action if necessary ○ Make adjustments to trades if necessary ○ Consider alternative third parties if necessary • Conduct best execution reviews to determine quality of executions by third party
Record	<ul style="list-style-type: none"> • Contracts with third party

	<ul style="list-style-type: none"> • Reports and records of corrective action • Records of best execution reviews
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If SAMCO employs a third party to handle orders on its behalf, it will consider the third party's ability to comply with Regulation NMS and regularly review the quality of order executions.

10.7 Orders In Volatile Stocks

[FINRA Notice to Members 99-11]

Some securities are characterized by volatility of price and volume. This has, in particular, been a characteristic of some Internet stocks. The RR should know the potential affect of volatility on recommended stocks and discuss these risks when recommending such investments with customers unfamiliar with transactions in these types of securities. Following are some of the conditions potentially affecting volatile stocks:

- High volume in volatile stocks may result in delays in execution at the opening or during the trading day.
- Market orders may be executed at a price significantly different from the current quote. The benefits and risks of market vs. limit orders should be discussed.
- Orders for IPOs in the secondary market may be executed at prices significantly away from the current quote, and, because of "fast market" conditions, the current quote may not be up to date.
- Volatile stocks may be subject to higher margin requirements or not available for purchase on margin.

10.8 Account Designation And Cancels/Rebills

[FINRA Rule 4515]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Cancel/Rebill form • Cancel/Rebill Report • FINRA Cancelled and As-Of Trades Report
Frequency	<ul style="list-style-type: none"> • Daily review of forms presented • Monthly review of Report
Action	<ul style="list-style-type: none"> • Review frequent cancellations and cancel/rebills which may be indicative of unauthorized trades • Review and approve or disapprove cancels and rebills. • For cancels from one account to another, particularly review reason for cancel and rebill prior to approval. • Review Cancel/Rebill Report for patterns by customer and/or by RR. • Where patterns appear confer with RR. • Where patterns continue to appear, contact customers whose orders were cancelled to confirm orders were originally authorized. • If customers advise transactions are unauthorized, contact Compliance. • Compliance: Review FINRA report and follow up regarding patterns of cancelled or as-of trades (contact RR and RR's supervisor, customer contact or other appropriate action)

Record	<ul style="list-style-type: none"> • Initials on Cancel/Rebill Form • Initials and date on Cancel/Rebill Report • FINRA Report including notes of action taken retained by Compliance • For patterns of cancellations, notes of review and action taken on reports reviewed or included on supervisor's log, daytimer, or other record, if appropriate.

Each order, prior to execution, must include the account name or designation on the order with the exception of investment adviser order allocations explained in the next section.

Whenever an order is cancelled and rebilled to another account (including changes between related or same-owner accounts), the cancel and rebill form must be completed and approved by the designated supervisor and retained with the order record. The supervisor must document the essential facts relied upon to approve the change.

10.8.1 Allocation Of Investment Adviser Orders

[FINRA Rule 4515.01]

Orders may be accepted from the investment adviser allowing the investment adviser to later identify the name or designation of the accounts for which the order is to be executed. Specific account designations or customer names must be received by noon of the next business day following the trading session. This exception applies only where there is more than one customer for any particular order.

The exception applies to outside registered investment advisers and employees who provide investment advisory services on behalf of SAMCO acting as a registered investment adviser. This does not apply to RRs who have discretionary authority over customer accounts subject to NASD Rule 2510 "Discretionary Accounts."

10.9 Time And Price Discretion

[NASD Rule 2510(d)(1); FINRA Rule 4512(a)(3)]

With the customer's consent, time and price discretion may be used for orders for a definite amount of a specific security without written authorization from the customer. The duration of this authority is limited to the end of the business day on which the order was received. Discretion beyond the same day requires establishment of discretionary authority and signed and dated authorization from the customer. Refer to the chapter *ACCOUNTS* and the section *Discretionary Accounts* for procedures for establishing and handling discretionary accounts.

Exercise of time and price discretion should be noted on the order record.

This limitation does **not** apply to time and price discretion exercised in institutional accounts pursuant to valid good 'til cancelled instructions issued on a "not held" basis. "Institutional account" includes a bank; savings and loan association; insurance company; registered investment company; registered investment adviser; and any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

10.10 Trading Halts

[FINRA Rule 5260, 6120, 6121 and 6440; NASDAQ Rule 3340, 4120 and 4121]

When trading halts occur, whether they are for specific securities or circuit breakers that close entire markets, orders are handled as follows:

- When trading is resumed on the same trading day, pending and new customer orders are forwarded to the appropriate market for execution upon resumption of trading, unless the customer instructs otherwise.
- When trading is closed for the duration of the trading day, pending and new customer orders are treated as follows:
 - Orders pending at the time of the halt and new orders received after the halt commences are treated as "Good Til Cancelled" and held for execution at the reopening of the next trading session (unless the customer instructs otherwise).
 - "At-the-Close" orders (including "Market-on-Close" orders) pending at the time trading is halted are treated as cancelled orders. No new orders relating to closing prices received during a trading halt are accepted or forwarded to a market.

If SAMCO maintains a web page, a notice will be promptly posted stating that circuit breaker halts have closed the markets and explaining how pending or new orders will be handled.

10.11 Trade Reporting By Third Parties

[2007 Member Alert: Notice to All TRF, ADF and Other FINRA Facility Participants Regarding AGU and QSR Relationships]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Transaction data • FINRA compliance report cards
Frequency	<ul style="list-style-type: none"> • Monthly
Action	<ul style="list-style-type: none"> • Execute agreement(s) with third party ("give up agreement") in the form specified by FINRA and/or a QSR agreement • Review trade data and compliance reports to determine accuracy of third party reporting • If errors are noted: <ul style="list-style-type: none"> ○ Confer with the third party regarding what corrective action will be taken to prevent future errors ○ If errors persist, consider changing third party reporting agents
Record	<ul style="list-style-type: none"> • Transaction data and reports reviewed (including date reviewed, who reviewed, action taken)

When a third party is used for clearing, reporting or locking-in trades, whether under an Automated Give Up (AGU), Qualified Service Representative (QSR) or other arrangement, the third party's reporting will be periodically reviewed for compliance with requirements.

10.12 Trading Systems And Electronic Transmission Of Orders

[FINRA Notice to Members 04-66]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Trade data • Operating system procedures
Frequency	<ul style="list-style-type: none"> • Authorizing access persons - as required • Review of errors - daily as required • Testing of system - at least annually
Action	<ul style="list-style-type: none"> • Provide passwords to persons authorized to access trading systems • Provide training to those with authorized access • Review and correct errors in accordance with SAMCO's trade error procedures described in a section of this chapter • If access is provided to correspondents or other parties, obtain their written control procedures and a written undertaking the other party will abide by the procedures
Record	<ul style="list-style-type: none"> • Errors are documented in accordance with trade error procedures • Testing and/or audits of trading systems is documented in reviews of systems and/or audits of business units • Correspondents' written control procedures and undertaking (if applicable)

This section describes supervisory procedures to prevent errors when entering orders through order-routing and execution systems ("trading systems").

- Only authorized persons are permitted to access trading systems. Access is password-protected.
- Order entry personnel will receive training regarding order entry procedures and proper operation of the system.
- Orders will be validated for accuracy and identification of duplicate or re-transmitted orders.
- Limits on order entry include order size and/or credit limits.
- Errors due to system failure, order entry errors, or other system-related errors will be corrected internally. FINRA's "clearly erroneous transaction" procedures are not available to correct such errors.
- The system will be tested periodically. Testing connectivity to regulators' systems will be conducted using procedures established by the regulator with test orders clearly marked as such and not sent in the guise of an actual order.

10.13 Order Records

[SEC Securities Exchange Act of 1934 Rule 17a-3 and Rule 17a-4; FINRA Rule 5340 and 7440]

Certain information must be recorded for orders accepted by SAMCO. Information to be recorded includes:

- Identification of the account
- Buy or sell
- If sell, long or short
- If a short sale, an indication the security can be borrowed
- If sell long, an indication that the seller will deliver the security
- If an option, put or call and open or close
- Name of security
- Quantity
- Price (if a limit order)

- Day or GTC (if not a market order)
- Other terms of the order (fill or kill, stop limit, etc.)
- If a discretionary account, notation whether discretion is exercised or not exercised (DE or DNE)
- Identity of RR responsible for the account, if any
- Identity of other person(s) who entered or accepted the order
- Date and time order is received and entered (pre-timing of orders for block positions is prohibited)

Other information to be recorded for the order includes:

- If the customer's order is granted a stop (i.e., price protection on an order as negotiated by SAMCO and the customer), the stop is to be noted on the order
- Any modification to/cancellation of order or instructions
- Execution price
- Date and time of execution or cancellation
- If the customer enters the order on an electronic system, a notation regarding electronic entry

10.14 Large Trader Reporting

[SEC Securities Exchange Act of 1934 Rule 13h-1; SEC Large Trader FAQs: <http://www.sec.gov/divisions/marketreg/large-trader-faqs.htm>]

Note: The SEC delayed the effectiveness of certain aspects of this Rule. The items indicated as "delayed" do not go into effect until May 1, 2013 except for BDs that: (1) are large traders or (2) have large trader customers that are either BDs or that trade through a sponsored access arrangement in which case the effective date is delayed until November 30, 2012.

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Trading records identifying firm trades
Frequency	<ul style="list-style-type: none"> • Ongoing - if not already a reporting Large Trader, review trading records to identify when that status is met to initiate identification to the SEC • One time - Identify large trader qualification and notify the SEC • Annually - File Form 13H within 45 days of end of calendar year • Amend Form 13H within 45 days after the end of a calendar quarter if the prior filing becomes inaccurate • As required - provide requested trade data to SEC (DELAYED) • File "Inactive Status" or make a Termination Filing if appropriate
Action	<ul style="list-style-type: none"> • If not already a reporting Large Trader and magnitude of firm trading would potentially require SAMCO to file as Large Trader at some time, review trading records to identify when that status is met to initiate identification to the SEC within 10 days after meeting or exceeding the identifying activity level • If filing as a Large Trader: <ul style="list-style-type: none"> ○ File Form 13H annually with the SEC ○ Amend filings, if necessary ○ Provide requested trade data to the SEC

	<ul style="list-style-type: none"> • Disclose large trader identification number (LTID) • Retain required records if large traders maintain accounts with the Firm (DELAYED)
Record	<ul style="list-style-type: none"> • Review of trading records to make initial filing, if necessary • Annual Form 13H reports • Trading data provided to the SEC upon their request (DELAYED) • Required records listed in this section (DELAYED)

The SEC requires firms that qualify as "Large Traders" to file reports with the SEC. All broker-dealers who maintain accounts for large traders are required to retain records which are explained in a separate subsection. This section outlines the requirements of a very extensive rule that should be consulted directly for details of requirements.

10.14.1 Large Trader Definition

A Large Trader is defined as a person, including a firm or individual, whose transactions in NMS securities equal or exceed (1) 2 million shares or \$20 million during any calendar day or (2) 20 million shares or \$200 million during any calendar month (the "identifying activity level" for filing Form 13H). "Transactions" for purposes of identifying a Large Trader exclude: (1) transactions part of an offering; and (2) sales by a selling shareholder in connection with an IPO or in a secondary offering if the seller is a current or former employee of the issuer and securities being sold were part of the employee's compensation.

An ownership level of 25% would generally give a person "control" for purposes of Large Trader designation. Multiple persons within a corporate group may qualify as Large Traders. If a natural person or subsidiary entity within a large organization independently qualifies as a Large Trader, a parent company of that Large Trader may file on Form 13H and identify itself as the Large Trader on behalf of the group, removing the requirement of the subsidiary to separately identify as a Large Trader.

10.14.2 Identifying Activity Level

It is the identifying activity level that identifies a person as a Large Trader. Offsetting or netting transactions among or within accounts, even for hedged positions, are added to a market participant's activity level in order to show the full extent of a trader's purchase and sale activity. When aggregating transactions, the Large Trader would determine across all accounts over which it has investment discretion:

- The volume or fair market value of transactions in equity securities and the volume or fair market value of the equity securities underlying transactions in options on equity securities, purchased and sold; and
- The fair market value of transactions in options on a group or index of equity securities (or based on the value thereof), purchased and sold.

The rule should be consulted for transactions exempt from the identifying activity level including gifts, journals/bookkeeping entries, issuer offerings, and other exemptions.

10.14.3 Large Trader Identification Number (LTID)

The SEC assigns each large trader an LTID. Large traders are obligated to disclose this number to the registered broker-dealers effecting transactions on its behalf and identify for them each account to which it applies. The LTID is one of the elements to be included in consolidated audit trail reporting.

10.14.4 Filings

Large traders are required to make filings of Form 13H which is a web-based form.

Initial filing: Large Traders are required to identify themselves to the SEC by filing Form 13H [Rule 13h-1(b)]. The initial filing is due within 10 days after the Large Trader meets or exceeds the identifying activity level.

Annual filing: Submit an annual filing of Form 13H within 45 days after the end of each calendar year.

Amended filing: Inaccurate filings must be promptly corrected following the end of the calendar quarter in which the prior filing becomes inaccurate for any reason. For example, changes to the name, business address, etc. would require an amended filing.

Inactive status: Form 13H is not required if a person does not meet or exceed the identifying activity level. If the person does not anticipate meeting the level again, it may file for "Inactive Status."

Reactivated status: If a person on Inactive Status meets or exceeds the identifying activity level, it must file for Reactivated Status within 10 days.

Termination filing: Persons may terminate Large Trader status by submitting a Termination Filing. For example, if a person ceases operations, dissolves, or is acquired.

10.14.5 Records (DELAYED)

[Electronic Blue Sheet FAQs: <http://www.finra.org/Industry/Compliance/RegulatoryFilings/BlueSheets/P125234>]

Broker-dealers that maintain accounts for large traders are required to maintain the following records:

- Records of transactions effected in accounts identified to it as Large Trader accounts as well as Unidentified Large Traders* including the LTID and trade execution times, in addition to all of the other information collected by the Electronic Blue Sheet (EBS) system
- Electronically report Large Trader transaction information to the SEC upon request
- Monitor compliance with Rule 13h-1
- If the broker-dealer is a Large Trader, any proprietary or other account over which the BD exercises investment discretion
- Where a non-broker-dealer carries an account for a Large Trader, the BD effecting transactions directly or indirectly for the Large Trader must maintain records of all of the same information

*An "Unidentified Large Trader" is defined in 13h-1(a)(9) as a person who has not complied with large trader registration and self-ID requirements and that SAMCO knows or has reason to know is a large trader based on the person's transactions in NMS securities effected by or through SAMCO. SAMCO will look for potential Unidentified Large Traders by monitoring its trading activity with others. In the event one is found, the person/firm will be treated as an Unidentified Large Trader and will be notified of their obligation to self-report and obtain an LTID. Records of monitoring and contact with Unidentified Larger Traders will be maintained with other Large Trader records.

Records must be maintained for 3 years, 2 years in a readily accessible location.

10.15 Conflicts Of Interest

10.15.1 Adverse Interest

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Order records • Daily Transaction Report
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Identify transactions where an RR is on the other side of the trade from the customer • Ensure the customer's confirmation includes a trailer disclosing an employee was on the other side of the transaction, OR, • Send the customer a disclosure letter
Record	<ul style="list-style-type: none"> • Customer confirmation, OR • Copy of disclosure letter to customer which is maintained in the branch customer file

When an RR is on the opposite side of a transaction from a customer (customer sells a security and the RR is the purchaser, or customer buys a security and the RR is the seller), the RR may be considered to have an "adverse interest" in the transaction. The branch manager or other designated supervisor should require a disclosure on the customer's confirmation or a letter to the customer disclosing that an employee was on the opposite side of the transaction.

10.15.2 Precedence Of Customer Orders

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order records • Daily Transaction Reports
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Identify orders where the RR has received a better price for a transaction in the same security, on the same day, and on the same side of the market (buy or sell) as the RR's customer • Adjust the customer's order to the better price, if appropriate
Record	<ul style="list-style-type: none"> • Order adjustments are included in records of the day's orders

The customer's interest has precedence over any employee's personal interest. While there is no standard that applies in every case, in general, RRs will solicit customer orders before entering orders for personal accounts in the same security. When an RR receives a better price in a security the same day the RR's customer executes an order in the same security on the same side of the market (buy or sell), the customer will generally receive the better price unless there are circumstances that justify the RR's better price (time of order entry, inability to reach customer, *etc.*).

10.15.3 Disclosure Of Control Relationship

[FINRA Rule 2262]

When a customer effects a transaction in a security where the issuer controls, is controlled by, or is under common control with SAMCO, SAMCO will provide the customer with a disclosure in writing at

or before completion of the transaction. This is usually accomplished by included disclosure on the customer's confirmation.

10.16 Review Of Customer Transactions

10.16.1 Review Of Daily Transactions

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Order records Daily Transaction Report
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> Review orders for, among other possible items: <ul style="list-style-type: none"> Completeness of order records Suitability of transactions Discretionary account orders Orders requiring approval Excessive commissions Unauthorized transactions Wash sales/prearranged trades Prohibited orders For orders contrary to SAMCO policy or rule requirements, take corrective action which may include: <ul style="list-style-type: none"> Confer with the RR to clarify the transaction, if necessary Cancel and rebill the transaction to reflect appropriate charges Cancel the transaction to SAMCO's error account Confer with Compliance regarding additional education for the RR and/or disciplinary action
Record	<ul style="list-style-type: none"> Initials on order records requiring approval Initials on day's order records

Orders are reviewed on a daily basis for compliance with order requirements.

10.16.2 Unauthorized Transactions

Reviews of transactions should include identification, where possible, of unauthorized transactions. Potential indicators of unauthorized transactions may include patterns of:

- Cancellations of transactions
- Cancels and rebills between accounts
- Sellouts for failure to pay for purchases
- Numerous extensions

The designated supervisor is expected to take corrective action regarding potential unauthorized transactions. Corrective action may include, depending on the circumstances:

- Confer with the RR
- Contact customers directly to confirm authorization of transactions
- Cancellation of unauthorized transactions
- Confer with Compliance regarding any identified unauthorized transactions

10.16.3 Review Of Transactions For Excessive Commissions

[NASD IM 2440]

SAMCO has an obligation to charge fair commissions or markups/markdowns on customer transactions. Charges should comply with SAMCO's established commission schedule.

The designated supervisor is responsible for reviewing daily reports of commission and markups/markdowns on customer transactions to determine compliance with SAMCO guidelines. The following factors are considered when determining the fairness of charges:

- type of security
- availability of the security in the market
- price of the security
- amount of money involved in the transaction
- disclosure to the customer of the markup or markdown
- pattern of markups or markdowns
- nature of SAMCO's business

In addition, the markup/markdown on "proceeds transactions" must conform to FINRA's Mark-Up Policy which includes a 5% guideline. Proceeds transactions are transactions where the customer sells a security and uses the proceeds to buy another security at or about the same time. Fairness of the markup/markdown is determined by combining the charges for both transactions. For example, if a 2% markup is added to the buy order, no more than 3% could be charged as a markdown on the sell order.

10.16.4 Review Of Account Activity By Designated Supervisors

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Customer monthly statements• Posting records• New account forms
Frequency	<ul style="list-style-type: none">• Semi-annually
Action	<ul style="list-style-type: none">• Review customer transactions records for suitability of transactions• Refer to new account forms when necessary to identify investment objectives and other customer information• Confer with RR regarding suitability questions• Confer with Compliance when necessary• Contact customer when necessary to confirm customer's understanding of and agreement with transactions• Modify or restrict future transactions, as appropriate
Record	<ul style="list-style-type: none">• Initials on records reviewed• Branch Manager's Log

Designated Supervisors are expected to review customer account activity periodically. This may be accomplished by reviewing the monthly statements, posting records, and/or other cumulative transaction information of selected RRs on a rotating basis.

10.16.5 Review Of Account Activity By Compliance

Accounts will be selected for review on a periodic basis by Compliance. Criteria for selection and frequency of review will be established by Compliance.

10.17 Trade Errors

[SIFMA Policy Statement and Guidelines Regarding Error Trade Policies for Interdealer Brokers:
<http://www.sifma.org/services/stdforms/pdf/ERROR-TRADE-POLICY-FINAL.pdf>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Trade Error Form or other
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Frequent errors by RRs may indicate poor work habits, insufficient manpower to properly enter orders, deficiencies in understanding proper order entry procedures, or unauthorized trading. It is the Branch Manager's responsibility to minimize trade errors in the branch; take immediate corrective action when an error is identified; and take follow up corrective action as necessary.<ul style="list-style-type: none">○ Instruct the wire operator or other order entry person regarding action to correct the error○ Approve Trade Error Forms○ Identify patterns of errors by individual RRs○ Where patterns are identified, confer with the RR regarding any order entry problems and the reasons for frequent errors○ Take corrective action as appropriate
Record	<ul style="list-style-type: none">• Initials on Trade Error Forms• Notes regarding corrective action in the RR's file or on the supervisor's log, daytimer, or other record, as appropriate

Trade errors are to be immediately reported to the designated supervisor for correction. RRs are not permitted to correct errors themselves.

SAMCO may not cover losses for investors by treating transactions as errors when, in fact, they are not errors. Some customers may request such an accommodation in exchange for future business. Absorbing losses is a violation of SRO rules and is not permitted.

10.18 Sellouts

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Notices from Operations regarding sellouts
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Sell out customer securities
Record	<ul style="list-style-type: none">• Sellouts are included in the day's order records

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Customers who fail to pay for transactions will be subject to sellouts to close out the unpaid security position. RRs will be charged for any unpaid balance remaining after the sellout.

A pattern of sellouts may indicate problems with customers or potential unauthorized transactions. The designated supervisor is responsible for directly contacting customers where there is a pattern of sellouts to determine the cause of the sellout and whether the customer authorized the transaction. If unauthorized transactions or other wrongdoing are identified, it is the designated supervisor's responsibility to take corrective action including disciplinary action against the RR. Compliance should be contacted for guidance regarding corrective action.

10.19 Time Clock Synchronization

[FINRA Rule 7430; <http://www.finra.org/Industry/Compliance/MarketTransparency/OATS/FAQ/P085544>]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Clock Synchronization Log
Frequency	<ul style="list-style-type: none"> Weekly
Action	<ul style="list-style-type: none"> Review Log Take corrective action for failure to synchronize clocks which may include: repair or replacement of clocks (for mechanical failure); additional training of personnel; or other appropriate action in consultation with Compliance If a non-member is used to record OATS times, obtain a current copy of the procedures used by the non-member to ensure their clocks are synchronized
Record	<ul style="list-style-type: none"> Clock Synchronization Log is retained in an order desk file.

Under FINRA rules, all time clocks (computer system or mechanical) used for recording date and time of orders must be synchronized to ensure the accuracy of recorded time. The following procedures are to be followed to synchronize time clocks used to record order entry and execution times:

- All clocks must reflect Eastern Time (Daylight or Standard, depending on time of year).
- Clocks that have not been checked according to these procedures must **not** be used for recording order information.
- All clocks will be synchronized with the National Institute of Standards and Technology (NIST) system clock **each business day**:
 - prior to the opening; and
 - at least once during the trading day (target time: 12:00 p.m. Eastern Time).
- Traders or other order desk personnel must record clock synchronization on the Clock Synchronization Log and provide the Log to the trading or order desk manager weekly
- Failure to conduct required synchronization may result in disciplinary action.
- The designated trading or order desk supervisor is responsible for reviewing and retaining the Logs.

10.20 Issuer Repurchases Of Common Stock

Rule 10b-18 provides a "safe harbor" when an issuer (or its affiliate) repurchases its own outstanding common stock, including purchases to effect a merger or acquisition or as a "going private" effort. The safe harbor enables the issuer to avoid violations of the anti-manipulation rules. To come within the safe harbor, the issuer must meet four conditions on each day it bids for and repurchases shares of its common stock (manner of entry, timing, pricing, and volume conditions).

Because the Rule is technical and complex, the appropriate trader or Compliance should be consulted regarding questions about the issuer's obligations and SAMCO's role under the Rule. RRs may not give advice to issuers on 10b-18 compliance; issuers should be encouraged to consult with their own counsel.

The following is a brief summary of Rule 10b-18 conditions. **Other requirements not listed here are included in the Rule.**

- All bids and purchases must be made through or by only one broker or dealer in a single day.
- A purchase may not be the opening reported purchase of the day.
- Purchases may not be made at a price higher than the highest independent bid or transaction price at the time of the purchase.
- For issuers having an average daily trading volume of \$1 million or more and a public float value of \$150 million or more, purchases may be made until the day's last 10 minutes of trading. Other issuers are limited to purchases until the day's last 30 minutes of the primary trading session in the principal market for the security.
- The number of outstanding common shares purchased by an issuer on any single day may not exceed 25% of the average daily trading volume of the stock for the 4 calendar weeks preceding the week purchases are made.
- Issuers are permitted to make "block" transactions once a week on a day when no other 10b-18 purchases are made.
- Issuers are required to make disclosures regarding repurchases in their 10-Q and 10-K filings.

10.21 Blue Sky Of Securities

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order records • Daily Transaction Report
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Review order records and Daily Transaction Report for patterns of solicited purchase orders in securities that are potentially not blue-skied including: <ul style="list-style-type: none"> ○ securities that are not potentially exempt ○ securities that are low-priced • Compliance: if a violation occurs, determine if rescission is required and offer rescission; assess loss • Consult Compliance regarding transactions in question
Record	<ul style="list-style-type: none"> • Initials on order records • Initials on Daily Transaction Report • Notes of questioned transactions on Daily Transaction Report and/or supervisor's log, daytimer, or other record • Records of rescission offered

10.21.1 General Requirements

"Blue sky" refers to state laws that govern the sale of securities and those who sell securities to residents of individual states. Registration of agents is discussed in the chapter *EMPLOYMENT, REGISTRATION AND LICENSING*. This section discusses blue sky requirements of securities sold by SAMCO.

Securities must be blue skied in the state of residence of the customer to whom the security is sold. If a security that is not blue skied is sold to a customer in violation of state blue sky laws, the customer likely has a right of "rescission," which means the customer may cancel the transaction and receive a refund of the purchase price. Losses resulting from rescissions will be charged to the RR who sold the security in violation of blue sky requirements. States may also take disciplinary action against firms and individuals for violations of state law.

There are two ways a security may be sold to a state resident under blue sky laws. First, the issuer may register with the state. Second, an exemption may apply. Exemptions generally apply to:

- Securities issued by the federal government and municipalities
- Exchange-listed securities
- NASDAQ Capital Market listed securities
- Securities sold to certain institutions

Because blue sky laws vary from state to state, Compliance should be consulted to determine specific requirements.

10.22 Exchange-Listed Index Warrants, Currency Warrants And Currency Index Warrants

[FINRA Rule 2350 series; FINRA reminder of sales practice rules dated May 14, 2007]

Customer transactions in these securities are generally subject to requirements for trading options (FINRA Rule 2360). The following chart indicates requirements when selling these securities and the corresponding language in options rules that applies.

Rule	Corresponding options rule	Explanation/requirements
2351		General requirements language
2351		Definitions of terms
2352	2360(b)(16)	Account approval: must be approved in accordance with option account approval requirements
2353	2360(b)(19)	Suitability: reasonable basis required
2354	2360(b)(18)	Discretionary accounts: must be approved by an ROP
2355	2360(b)(20)	Supervision requirements consistent with options supervision
2356	2360(b)(17)(A)	Complaints: respond, retain record of complaint/response
2357	2220	Communications: options standards apply
2358	2360(b)(17)(B)	Records: requirements mirror options requirements
2359		Position limits: cannot exceed established limits

2359		Exercise limits: cannot exceed exercise limits
2359		Liquidation of index warrants positions: May be required when position limits are exceeded

10.23 Auction Rate Securities

[FINRA Regulatory Notice 08-08; FINRA Investor Alert: Auction Rate Securities: What Happens When Auctions Fail; SIFMA Auction Rate Securities Best Practices: www.sifma.org/services/pdf/AuctionRateSecurities_FinalBestPractices.pdf]

Auction rate securities are bonds that have interest rates periodically reset by auction. Interest reset periods are usually either 7, 14, 28 or 35 days. There are some securities where auctions occur more frequently (sometimes daily) or less frequently (for example, every six months or once over a multi-year period). An auction program employs one or more dealers that solicit orders from investors who wish to own the securities over the next interest reset period. The programs require one "auction agent," typically a bank, that receives orders from the dealers and conducts auctions consistent with procedures in the program documents. This procedure determines the lowest interest rate at which all of the securities offered for sale by current holders of the securities will clear the market (the "clearing rate"). The clearing rate then becomes the interest rate for all of the securities in the issue for the next interest rate reset period.

When recommending auction rate securities to retail investors, the following features and risks must be considered and discussed with the customer.

- features of the auction process including that the securities may or may not be sold at auction; there is no guarantee an auction will take place and securities may lose value as a result; there is no assurance regarding the outcome of auctions
- duration of the interest rate period and whether the period is subject to change
- the securities may have long-term maturities or no maturities at all
- features found in official documents including how "all hold" and maximum rates are determined
- the customer's need for liquidity and the liquidity characteristics of the particular auction rate security being considered

When an initial offering of auction rate securities is being sold, investors must be provided with the prospectus or other official document describing the offering.

10.23.1 Allocations

[FINRA Rule 2110; FINRA Regulatory Notice 08-21; FINRA Staff Interpretive Memo 7/9/08]

SAMCO (or its clearing firm) uses a methodology to allocate partial redemptions that is fair and does not disadvantage any customers. If SAMCO's method (or the clearing firm's method) varies from the specific provisions of NYSE Rule 402.30, it will confirm that the method is fair including satisfying customer positions before proprietary or associated person positions. The disclosure will be provided in plain English by mail or e-mail; on an accessible page of SAMCO's web site communicated to customers; and/or included prominently on customer statements. Communications will include examples of the allocation process to illustrate the explanation.

The FINOP is responsible for allocation procedures and providing disclosures to customers.

10.24 Security Futures

[FINRA Rule 2370]

[FINRA Rule 2370]

Security futures are subject to both securities and futures laws and regulations. A security future is a legally binding agreement between two parties to purchase or sell in the future a specific quantity of shares of a security (such as common stock, an exchange-traded fund, or ADR) or a narrow-based security index, at a specified price. "Single stock futures" are based on the trading of futures on narrow-based indices and single stocks and are security futures, though not all security futures are single stock futures.

Security futures are subject to special registration and sales practice requirements.

10.24.1 Registration Requirements

[FINRA Notice to Members 06-63]

The following summarizes registration requirements to supervise and sell security futures.

For supervisors, one of the following plus required continuing education:

- Series 4 Registered Options Principals
- Series 9/10 Limited Principal - General Securities Sales Supervisor

For RRs, either of the following plus required continuing education:

- Series 7 General Securities Representative
- Series 42 Limited Representative - Options and Security Futures

10.25 Certificates Of Deposit

[FINRA Notice to Members 02-69; NASAA Callable CD Checklist: <http://www.nasaa.org/content/Files/CallableCD.pdf>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Transaction reports• Customer information• Information about CDs being offered
Frequency	<ul style="list-style-type: none">• Daily - review transactions• As required - provide training
Action	<ul style="list-style-type: none">• Provide training to RRs regarding features of CDs and suitability guidelines when recommending CDs depending on type• Review transactions for suitability considering the type of CD being purchased and the customer's investment objectives and investment profile
Record	<ul style="list-style-type: none">• Order records/transaction reports include supervisor's initials and date of review and note of action taken• Training materials and records of when training is administered and to whom

SAMCO offers certificates of deposit (CDs) as one of the products available to customers. Because CDs offered by SAMCO may be different from traditional bank-issued CDs that carry a fixed interest rate over a fixed duration of time and are insured by FDIC, it is important that RRs understand the features of these CDs before offering them to customers.

10.25.1 General Sales Guidelines

The following guidelines apply to the sale of CDs:

- Only SAMCO-approved sales material may be provided to customers.
- RRs should be familiar with the features of the CD prior to discussing it with the customer. In particular, it is important to understand FDIC insurance coverage, interest rates, maturity dates, fees or markups, and other terms of CDs.
- RRs must consider suitability when recommending CDs. For example, a 30-year zero coupon CD is not likely to be appropriate for an elderly customer.

10.25.2 Special Characteristics Of CDs

Some CDs have unique characteristics which should be understood by the RR and communicated to the potential purchaser. Some of those special characteristics are explained below.

CDs may be securities. Some CDs may be considered securities and must be registered. Whether or not a CD is a security depends on a number of factors and requires individual analysis. CDs should be reviewed by Compliance prior to offering to the public, to determine whether registration as a security is required.

"Brokered" CDs may be significantly different from traditional CDs. Brokered CDs are CDs issued by banks via a "master CD" to deposit brokers (which include broker-dealers) which sell interests to individual investors. The master CD is an aggregation of individual CDs with the same denomination.

- Brokered CDs may have longer maturity dates (in some cases 20 years) than traditional CDs.
- Interest rate terms may differ significantly from simple rates paid by traditional CDs.
- There may be a penalty for withdrawing funds before maturity.
- If a secondary market exists for the CD, the customer may lose principal because of prevailing interest rates at the time of sale.
- FDIC insurance protection may or may not be available to the customer, depending on whether the customer has exceeded the \$100,000 limit at a particular bank, thrift or credit union.
- Brokered CDs may have a call feature.

10.25.3 Disclosures When Selling Brokered CDs

Disclosures must be made to customers in the following areas:

- Potential for loss of principal
- Limitations on secondary markets
- Call features
- Step-up or Step-down features

Loss of Principal: Long-term CDs are subject to market price fluctuations primarily affected by prevailing interest rates. If a customer chooses to sell a CD prior to maturity, the pre-maturity sales price of the brokered CD may be less than its original purchase price. Using the term "no penalty for early withdrawal" is misleading unless the issuer guarantees redemption at full face value for a sale prior to maturity.

Secondary market: The secondary market for long-term CDs may be limited. SAMCO will make the appropriate disclosure to purchasers of CDs during an initial distribution.

Call features: Callable CDs give the issuer the right to redeem the CD. This typically happens when a long-term CD is trading at a premium to its call price in the secondary market. Purchasers should understand it is the issuer that has the right to call the CD, and it may be redeemed at a time when less favorable interest rates are available for reinvesting the funds. RRs must not predict the likelihood that the CDs will or will not be called.

Discount or zero CDs: Purchasers should understand the maturity date of the CD and that interest and principal are not payable until maturity. Early sales may result in a substantial loss of value.

"Step rate" CDs: A "step-down" CD generally pays an above-market interest rate for a period of time after which it will then "step down" to a lower, predetermined rate that will be paid until maturity. A "step-up" CD generally pays a below-market interest rate for a period of time after which it will then "step up" to a higher predetermined rate that will be paid until maturity. The "step rate" may be below or above then-prevailing market rates. The initial rate cannot be used to calculate yield to maturity.

10.25.4 Market Index/Linked CDs

Some CDs are linked to market indices. Market Indexed/Linked CDs ("MCDs") are hybrid investments that often combine zero-coupon bonds with stock options on the underlying market index. When held to maturity, MCDs are intended to offer return of the initial investment with the potential of upside gain based on the performance of the underlying index. MCDs are insured by the FDIC for up to \$100,000 per account held at each institution.

There are important differences between certificates of deposit and indexed CDs. RRs should understand those differences and disclose key risks and features when recommending purchases.

- Unlike traditional CDs, MCDs are subject to market risk if sold prior to maturity.
- A secondary market is not guaranteed and may not exist; customers may not be able to liquidate MCDs prior to maturity.
- Investors must keep MCDs for the full term of the MCD (often 4-5 years) in order to be guaranteed a return of principal plus earnings.
- Some indexed MCDs have complicated terms that can result in yields that vary greatly from what investors expect.
- Risk and return may have multiple determinants; an indexed MCD may be linked to multiple indexes and issuers can use a variety of averaging methods which, depending on the market environment, could result in no paper gains for the investor, even if the market ended higher at the end of the term.
- Some MCDs have call features that may result in the MCD being called prior to maturity.
- Some MCDs have "barriers" or "knock-out rates." Investors may receive no interest when the barriers are breached, *i.e.*, the index rises above or below the barrier.
- The tax implications of MCDs are different from traditional CDs. Because MCDs include zero coupon bonds, the customer will be required to pay tax on the increase in the accreted value of the MCD on a yearly basis ("phantom" income) even though actual interest is not received until maturity. If held in a taxable account, the investor is taxed on this phantom income.
- Customer should be advised on the method used to derive valuation. The price may or may not be based on the actual closing value of the linked index on the final maturity date. Market value of the MCD may not correspond directly to increases or decreases in the underlying linked index.

10.25.5 Account Statements

When brokered CDs are held in the customer's account, they may be priced at an estimated value. It may be difficult to accurately price brokered CDs and SAMCO's statements will include appropriate disclosures regarding pricing.

10.26 Cash Alternatives

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Advertising and other sales material • Order records
Frequency	<ul style="list-style-type: none"> • Daily - review of order records • Daily - review communications with the public • As required - review of new advertising/sales material • Quarterly - review of previously approved advertising/sales literature • Periodically - include cash alternatives in training
Action	<ul style="list-style-type: none"> • Designated Supervisor: <ul style="list-style-type: none"> ○ Review orders for suitability of recommendations ○ Review written and electronic communications for accuracy of representations and suitability of recommendations • Compliance: Review and approve/disapprove proposed advertising and sales material for accuracy or representations, compliance with regulatory requirements; re-review approved materials that continue to be used at least quarterly to confirm conditions have not changed that make the material inaccurate • Designated Supervisor, Compliance, other trainers: Include cash alternatives as a subject in RR training
Record	<ul style="list-style-type: none"> • Designated supervisor: orders records, communications • Compliance: advertising and sales material • Training records including what is included, date of training, and who attended are retained by the person/department conducting the training

In addition to issues about CDs, RRs must be aware of obligations when selling other securities that might be considered "cash alternatives." General obligations include the following:

- Avoid overstating a product's similarities to cash holding and provide balanced disclosure of the risks and returns associated with a particular product;
- Understand the features of the product; and
- Consider suitability before making a recommendation.

Public communications including sales materials and oral communications regarding cash alternatives must present a fair and balanced representation of the risks, benefits, and limitations of investing in these products. Investments may not be represented as an alternative to cash unless that is accurate. Written and electronic communications must include the following:

- Disclosure, if applicable, that the investment is not federally insured and the customer may lose money.
- Factors that may affect liquidity or price stability or the issuer's ability to repay its obligation in full.

Sales materials may not be used where market or economic developments affect the continued accuracy of characterization of a product as a cash alternative.

10.27 Real Estate Investment Trusts (REITs)

[FINRA Rule 2310; FINRA Regulatory Notice 08-35]

REITs invest in different types of real estate or real estate related assets such as shopping centers, apartment buildings, office buildings, hotels, and mortgages secured by real estate. The three types of REITs include:

- Equity REITs that invest in or own real estate with income principally from rents collected
- Mortgage REITs that lend money to owners and developers or invest in financial instruments secured by mortgages on real estate
- Hybrid REITs that combine the investment strategies of equity and mortgage REITs

REITs trade on national exchanges or in the over-the-counter market; some mutual funds specialize in public real estate. Some REITs invest specifically in one area of real estate (for example, apartment buildings) or in one specific geographic region. REITs generally provide ongoing dividend income along with the potential for long-term capital gains.

10.27.1 General Sales Guidelines

- When determining the suitability of recommending a REIT, consider the investor's investment objectives and need for income and the risks of the REIT including the use of leverage
- Apply a volume discount if it is available
- For unlisted REITs, consider liquidity and marketability and advise the investor of such risks [FINRA Rule 2310(b)(3)(D)]
- Customer account statements may include valuations and disclosures regarding certain REITs [FINRA Rule 2310(b), Notice to Members 01-08]
- Requirements regarding sales contests and cash/non-cash compensation apply to REITs (Refer to the chapter *ORDERS* and the section *Cash And Non-Cash Compensation*) [FINRA Rule 2310, Notice to Members 05-40]

10.27.2 Guidelines For New Issue REITs

- Follow new issue requirements for limiting written communications to the offering document
- When discussing the REIT, base information on the offering document including features and risks of the REIT
- Provide the offering document to the prospective investor

10.27.3 Private And Non-traded REITs

Private and non-traded REITs are companies whose shares do not trade on a national stock exchange. They generally operate like unit investment trusts by purchasing assets that are held for a fixed amount of time, often 7 to 10 years, and will either sell off the properties or do an IPO at the end to exit the fund and deliver returns to shareholders.

There are features and risks which RRs must be familiar with prior to recommending a private or non-traded REIT.

- Sales costs are deducted from the offering price.
- The investment is illiquid during the term of investment which may be 7 to 10 years. Trying to liquidate the investment earlier is often difficult or costly or may be impossible.
- Many companies offer some form of redemption plan but these are very limited, often limited to 3% of the shares outstanding in a year and involve a significant penalty.
- The fixed portfolio and long-term horizon provide a level of stability since the REIT is not required to sell properties to meet investor liquidation requirements.
- Non-traded REITs pay monthly or quarterly dividends which may be higher than publicly-traded REITs; however, dividends are not guaranteed.

- Dividends may include repayment of principal in early stages of the program.
- Private REITs are not required to provide the same level of quarterly disclosure as publicly-traded REITs.
- They impose minimum income and/or net worth requirements; RRs are obligated to determine the investor meets the requirements and completes any necessary subscription agreements.

10.28 Callable Common Stock

[FINRA Rule 2232]

Callable common stock is common stock that includes a feature where the issuer or a third party may call the stock away from the shareholder. The price at which the stock is called away may be at a premium to the prevailing market price at the time of the call or at a price or schedule of prices established at the time the stock is issued. Customer confirmations for transactions in callable common stock include a disclosure that the security is callable and that the customer may contact SAMCO for further information.

Because callable common stock may be called away from a shareholder, RRs should consider this factor when making a suitability determination before recommending the purchase of the stock.

10.29 Promissory Notes

[FINRA Notice to Members 01-79]

Promissory notes are a form of debt similar to a loan. Companies sometimes issue them to raise money for a variety of business needs. The company promises to return the buyer's funds (principal) and make interest payments during the life of the note.

Promissory notes often are deemed securities and must be registered with the SEC and/or the state they are sold in, or they must qualify for an exemption from registration.

When sold through SAMCO, RRs are required to make suitability determinations before recommending purchase. Considerations include the safety of the note and length of the term of the note. Transactions in promissory notes offered by SAMCO are subject to review by the designated supervisor.

Individuals or entities outside SAMCO may attempt to sell unregistered promissory notes through licensed RRs. RRs are reminded that they may only sell securities offered by SAMCO, unless specifically approved by Compliance.

10.30 Direct Participation Programs (DPPs)

[FINRA Rule 2310]

DPPs are primarily suitable for customers who need tax advantages on passive income. DPPs can be a method of obtaining appreciation of capital. Each DPP has specified suitability standards including information such as the purchaser's net worth. Following are features and requirements of DPPs:

- RRs should reasonably determine that the customer understands the ramifications of not having a high enough tax bracket or not enough passive income to receive benefits of a DPP's partnership flow-through concept.
- RRs are responsible for obtaining the required subscription agreement or, if no agreement is required, determining that the customer meets the standards outlined in the prospectus and completing the Suitability Questionnaire.
- While there may be a secondary market for particular DPPs, they may have limited liquidity and should be considered a long-term investment.

- Secondary market transactions must be recorded in SAMCO's order records including the time of execution.
- SAMCO will use FINRA standard transfer forms for secondary market transactions.
- Limited partners in rollup transactions will be provided a disclosure outlining information about the rollup.

10.31 Complex Products

[FINRA Regulatory Notice 12-03; IOSCO suitability requirements: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD373.pdf>]

FINRA guidance has indicated that complex products warrant particular care in how they are scrutinized and sold to retail customers. FINRA indicates that a product that is complex is one that "presents an additional risk to retail investors because its complexity adds a further dimension to the investment decision process beyond the fundamentals of market forces." This is only a general description since all the potential variations in products make it difficult to clearly define the term. The last subsection of this section includes examples of complex products from FINRA Regulatory Notice 12-03.

The complexity of products imposes additional obligations on RRs who sell such products, as well as on SAMCO to supervise their sale. Other sections in this chapter that discuss specific complex products include:

- *Hedge Funds*
- *Exchange-Traded Funds*
- *Commodity Futures-Linked Securities*
- *Non-Conventional Investments (NCIs)*
- *Structured Products*
- *Exempt Insurance Products and Equity-Indexed Annuities*

10.31.1 Approval Of The Product

All new products are subject to SAMCO's new product review process, and for complex products, there is a heightened level of review. If a complex product is approved for sale, training and other informational materials will be provided to RRs and, if appropriate, to potential investors. The types of investors suitable for the product will also be identified and communicated to RRs.

10.31.2 Knowledge Of The Product

The RR will be provided training regarding the features of a complex product. Before recommending complex products, RRs must understand the features and characteristics of the product and any reference asset (where applicable) including its historic performance and volatility and correlation with specific asset classes; any interrelationship between multiple reference assets; the likelihood that the complex product may be called by the issuer; and the extent and limitation of any principal protection. Knowledge of these aspects as well as how the product is expected to perform in normal market conditions and the risks are necessary to be able to present accurate information to prospective investors and to be able to make suitable recommendations.

10.31.3 Suitability Of Recommendations

Knowledge of the product is key to making a suitable recommendation. The other key aspects of a suitable recommendation include:

- The customer's investment experience
- The customer's risk tolerance
- A reasonable basis for believing, at the time of recommendation, that the customer has the knowledge and experience in financial matters that he/she may reasonably be expected to be capable of evaluating the risks
- The customer is financially able to bear the risks of the investment

The RR should discuss the features of the product with retail customers including how it is expected to perform under different market conditions, the risks and possible benefits, scenarios in which the product may perform poorly, and the costs of the product. The RR should consider whether it seems the retail customer understands the basic features of the product such as the fundamental payout structure and the nature of underlying collateral or a reference index or asset.

10.31.4 Other Requirements

There may be other requirements related to the sale of a complex product, including:

- Limits or conditions on the sale of the product, such as concentration limits or limits on the types of investors who may purchase the product
- Investor qualification agreements to pre-qualify potential purchasers
- Limitation on purchasers to those who have been approved for option trading, which provides a minimum qualification to participate in the investment

10.31.5 Examples Of Complex Products

- Asset-backed securities that are secured by a pool of collateral such as mortgages, payments from consumer credit cards or future royalty payments on popular music, may be difficult for retail investors to understand. With these securities, the creditworthiness of the underlying borrowers or the existence of prepayment risks, though critical to the evaluation of the product, may not be readily apparent to retail investors. Similarly, unlisted REITs may present liquidity and valuation issues for a retail investor.
- Products that include an embedded derivative component that may be difficult to understand, such as those:
 - in which repayment of principal or payment of yield depends upon a reference asset, when information about the performance of the reference asset is not readily available to investors. An example is structured notes with an embedded derivative for which the reference asset is a constant maturity swap rate.
 - that provide for different stated returns throughout the lifetime of the product. For example, "steepener" notes typically offer a relatively high teaser coupon rate for the first year, after which they offer variable rates determined by the steepness of a yield curve. Similarly, some firms have offered structured notes with payoffs contingent on whether one or more reference asset performs within a certain range.
 - under 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. So-called "reverse convertible notes" may fall into this category.
 - in which a change in the performance of the reference asset can have a disproportionate impact on the repayment of capital or on the payment of return. For example, "knock in" or "knock out" features associated with reverse convertible notes, in which a drop in the value of the reference asset to a pre-defined level, can affect determination of an investor's gains or losses.
- Products with contingencies in gains or losses, particularly those that depend upon multiple mechanisms, such as the simultaneous occurrence of several conditions across different asset classes. An example is range accrual notes for which the return of principal can depend upon the value of two or more reference assets on certain pre-defined dates.
- Structured notes with "worst-of" features, which provide payoffs that depend upon the worst performing reference index in a pre-specified group. These notes can limit the return of principal at maturity if either the reference index falls by a stated percentage (e.g., 30 percent) or if any of the reference indices decline in value since the date of issue.
- Investments tied to the performance of markets that may not be well understood by many investors. For example, some exchange-traded products offer retail investors exposure to stock market volatility. Some of these products also provide inverse or leveraged exposure. The investable form of volatility may be in the form of futures on the CBOE Volatility Index (VIX) that reflect the market's expectation of volatility. Some investors may not understand that the product's return may not be based on VIX fluctuations actually experienced on a given day, but on the market's expectation of future volatility.

- Products with principal protection that is conditional or partial, or that can be withdrawn by the product sponsor upon the occurrence of certain events. Notes that can lose their principal protection based upon a stated event represent an example of a product with this feature.
- Product structures that can lead to performance that is significantly different from what an investor may expect, such as products with leveraged returns that are reset daily. Leveraged or inverse exchange-traded funds exemplify this feature. Many leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated leverage or inverse objectives on a daily basis. Their performance over longer periods of time can differ significantly from what might be expected based on their daily leverage or inverse factor.
- Products with complicated limits or formulas for the calculation of investor gains. For example, some structured notes have a payout structure that tracks the upside performance of a reference asset one-for-four, but if the reference asset's performance exceeds a specified threshold the payoff is reduced to a much lower, pre-set level, regardless of how it performs afterward.

10.31.6 Risk Disclosure

It is important that investors understand the risks involved in structured product investments. If a prospectus or risk disclosure statement is available for the product being offered, it must be provided prior to any purchase. RRs must discuss the following risks with potential individual investors:

- General types of risks associated with structured products
- Any risk not usually associated with a given product, such as risk of loss due to any sale of the product before maturity
- Any material product-specific risk such as risks arising from the underlying asset, liquidity and market risks in relation to the product itself, or specific tax considerations
- Acknowledgment of limitations on available data
- The distinction between the underlying asset and the structured product based on the asset
- For principal-protected products, that the principal protection applies only at maturity and the costs of unwinding the product mean an earlier redemption value which may differ significantly from maturity value
- Availability or lack of availability of a secondary market to liquidate the investment
- Sales in the secondary market may be at significantly discounted value to the original investment
- Tax implications (if applicable) and the potential need to consult with the investor's accountant, tax attorney, or other tax professional

10.31.7 Risk Disclosure

It is important that investors understand the risks involved in structured product investments. If a prospectus or risk disclosure statement is available for the product being offered, it must be provided prior to any purchase. RRs must discuss the following risks with potential individual investors:

- General types of risks associated with structured products
- Any risk not usually associated with a given product, such as risk of loss due to any sale of the product before maturity
- Any material product-specific risk such as risks arising from the underlying asset, liquidity and market risks in relation to the product itself, or specific tax considerations
- Acknowledgment of limitations on available data
- The distinction between the underlying asset and the structured product based on the asset
- For principal-protected products, that the principal protection applies only at maturity and the costs of unwinding the product mean an earlier redemption value which may differ significantly from maturity value
- Availability or lack of availability of a secondary market to liquidate the investment
- Sales in the secondary market may be at significantly discounted value to the original investment
- Tax implications (if applicable) and the potential need to consult with the investor's accountant, tax attorney, or other tax professional

10.31.8 Fees And Costs

Fees, costs, commissions, discounts, and any other amounts paid at the time of purchase or for acting as such, over the life of that product, must be disclosed to investors.

10.31.9 Post-Trade Information

Where available, SAMCO will provide information to RRs and/or investors to enable them to monitor performance of structured products and provide access to information regarding the terms of the product including maturity, pay-out details, secondary market price, and other pertinent information.

10.31.10 Features And Risks Of Structured Products

Each structured product will have different features and it is the RR's responsibility to understand those features before making a recommendation. Following are some features that must be communicated to the customer (depending on the product) before a structured product is purchased:

- **Principal protection:** Some products offer full upside protection or have a cap; no dividends are paid. Principal protection may mature within one to seven years and investors must hold them until maturity to guarantee the principal's return. Maturities shorter than 5 years usually cap returns.
- **Buffered return-enhanced notes:** Usually linked to the performance of a market index and issued as senior unsecured debt obligations that mature within one to five years and trade in \$1,000 increments. There is no dividend or interest income and gains are taxed as long-term capital gains if the investment is held un-hedged for more than one year. Buffered notes provide partial principal protection with the buffer ranging from 10% to 15%.
- **Return-enhanced notes:** The investor gives up the right to participate in market gains over a period in exchange for a payout at maturity that may be 2 or 3 times the return of a benchmark index. Maturities generally range from 1 to 3 years and trade in \$1,000 increments. They have a cap and provide no protection against market declines, and there is no dividend income.
- **Reverse convertibles:** This product is linked to a particular stock, basket of stocks or index and pay a fixed coupon that provides some protection from loss. The registered notes mature within one year or less and trade in \$1,000 increments. They typically carry a coupon of between 10% and 20% and the upside is limited to the coupon amount. If the underlying stock falls below a set "barrier" level, the investor may get significantly lower-valued stock instead of cash upon maturity. If the underlying stock is volatile, risk is significantly increased. Investors who try to sell a reverse convertible before maturity may lose money since there may not be much demand for the notes, especially in a down market.

10.31.11 Principal-Protected Notes (PPNs)

[FINRA Regulatory Notice 09-73; SEC Investor Alert: <http://sec.gov/news/press/2011/2011-118.htm>]

PPN in this section refers to any structured product that combines a bond with a derivative component and that guarantees a full or partial return of principal at maturity. Sales of PPNs to retail customers are subject to particular considerations explained in this section:

- While products may be described as "guaranteed," principal protection, absolute return, minimum return, the degree of guarantee, protection, risk, and return vary depending on the specific features of the note being sold.
- The suitability of recommendations must take these features into consideration as well as the customer's objectives, needs, and willingness/ability to sustain risk.

10.31.11.1 Features Of PPNs

PPNs typically combine a zero-coupon bond with an option or other derivative product with a payoff linked to an underlying asset such as an equities index or basket of indices. There is a guarantee of a

return of some or all principal at a maturity date which may be up to 10 years from issuance and participation in a return linked to a specific change in the value of the underlying asset.

RRs should review FINRA Regulatory Notice 09-73 for illustrations of how returns and guarantees may vary depending on how the note is structured.

10.31.11.2 Suitability Considerations

The following are factors to consider when recommending PPNs.

- The credit-worthiness of the guarantor and the nature and terms of guarantees
- The investment's pay-out structure, costs and fees
- The customer's need for access to their money before the maturity date arrives or a lock-up period expires
- The call risk of callable notes
- Tax consequences such as a note invested in zero-coupon bonds which could result in paying tax on imputed interest as it accrues
- Fees and costs
- Lack of inflation protection since principal guarantee generally relates to nominal principal

10.31.12 Reverse Convertibles

[FINRA Regulatory Notice 10-09]

A reverse convertible is a structured product that has features that should be communicated to potential retail investors before recommending the security. Relevant features potentially include the following:

- **How the product works** including pay-out structure, relevant information about the reference asset, and, if applicable, that the investor will not participate in any appreciation in the value of the reference asset.
- **Return of principal.** Instead of a full return of principal at maturity, the investor could receive less than a full return of principal if the value of the reference asset has fallen below a certain level, often referred to as the "knock-in" or "barrier" level. Depending on the underlying asset, the investor could receive a predetermined number of shares of common stock (or cash equivalent), which would amount to less than the investor's original investment.
- **Pay-out structure.** Pay-out structures may involve multiple variables that affect risk, cost, and potential benefits. The RR should have an understanding so these variables may be communicated to the investor.
- **Sale of product prior to maturity.** The ability to sell and the potential selling price may depend on the willingness of the issuer or another party to maintain a secondary market.
- **Issuance of research by the Firm.** If applicable, disclose to the investor that the Firm has published its own research reports regarding the reference asset, the content of the research and how the research is or is not relevant to a recommendation to purchase or sell the reverse convertible.

Communications, whether directly with a potential investor or through advertising or other communications, must be truthful and not contain any exaggerations. Following are restrictions and guidelines on communications:

- Reverse convertibles should **not** be described as ordinary debt securities.
- Any reference to the product's credit rating cannot suggest that the rating has any bearing on the expected performance of the reference asset, nor may it exaggerate the probability that the investor will receive a full return of principal.
- Annualized yield or coupon information cannot be presented in a misleading manner. For example, a 10% per annum coupon provides an actual return of roughly 2.5% (based on a 360-day year) over a 3-month term. Communications about products that mature in less than

a year must balance communication about annualized yield with prominent disclosure of the actual percentage return and the term of the note.

10.31.13 Exchange Traded Notes (ETNs)

[FINRA Investor Alert: <http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/TradingSecurities/P131262>; NYSE Informed Investor: What You Should Know About Exchange Traded Notes (http://www.nyse.com/pdfs/what_you_should_know_about_ETNs_8_08.pdf)]

ETNs are unsecured debt obligations of an issuer which typically is a bank or another financial institution. RRs must be familiar with the features and risks of ETNs before recommending them, and explain features to prospective investors. The complexity of an ETN is a factor to consider before recommending it to an investor.

Features include the following:

- ETNs are sold by prospectus which must be provided to the investor.
- ETNs usually do not pay interest but rather make distributions determined by the performance of an underlying index or benchmark on the ETN's maturity date (which may be 10, 30, or 40 years from issuance) minus fees. An individual ETN may or may not provide for periodic payments or cash distributions prior to maturity.
- Underlying indexes may be familiar and broad-based or less familiar asset classes or complex and sometimes proprietary indexes.
- Some ETNs offer leveraged exposure to the index or benchmark they track.
- Leveraged and inverse ETNs are short-term trading investments not intended for long-term investing.
- The creditworthiness of the issuer is important since the ETN itself is not rated.
- ETNs may have a repurchase feature allowing qualified investors to redeem notes of a minimum denomination or value daily or weekly at a predetermined price. Other investors may sell in an available secondary market (ETNs are often listed), sell if called by the issuer, or allow them to mature.
- The issuer charges an annual fee through the term of the ETN. Fees are explained in the prospectus.
- ETNs trade on exchanges; the sales price in the secondary market is determined by supply and demand. ETNs do not sell at net asset value (NAV).

Risks include:

- As unsecured debt obligations, the issuer may default on the note.
- ETNs are influenced by the value of the underlying index subjecting the investor to market risk.
- A trading market may not develop, even though an ETN is listed on an exchange.
- An ETN's market price may not track the underlying index.
- Some ETNs (particularly some leveraged, inverse and inverse leveraged) are short-term trading tools that may reset daily. The performance of these products over long periods can differ significantly from the stated multiple of the performance (or inverse performance) of the underlying index or benchmark.
- ETNs containing components traded in foreign currencies are subject to foreign currency exchange risk.
- Some ETNs are callable at the issuer's discretion; the notes may be called when the investor may incur a loss.
- The issuer may engage in trading activities at odds with investors who hold the notes.

10.31.14 Training

Training will be provided to RRs regarding the general features of structured products and requirements when making recommendations. Additional training may be provided for individual

products, as determined by the New Product Committee, at the time the product is subject to the new product review process.

Training will generally include:

- Risks associated with such products including the credit-worthiness of the guarantor, if applicable
- Terms and conditions, including the pay-out structure
- Underlying indices, assets, or benchmark
- The investment's potential for growth and risks associated with the investment
- Fee structure
- Other features that might impact the product's suitability generally or specific to customers

10.32 Structured Products

[FINRA Notice to Members 05-59; Principles for retail structured products (issued by multiple industry groups): <http://www.sifma.org/regulatory/pdf/RSPprinciples0707.pdf>; Structured Products: Principles for Managing the Distributor-Individual Investor Relationship: http://www.sifma.org/private_client/pdf/GlobalRSP-Distributor-PrinciplesMayExposureDraft.pdf; Interagency Statement on Complex Structured Financial Transactions: <http://www.sec.gov/rules/policy/2007/34-55043.pdf>; SEC Summary Report of Sweep Examination of Structured Products Sold to Retail Investors: <http://sec.gov/news/press/2011/2011-157.htm>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor - reviews of accounts and transactions • Compliance - review/approve advertising, sales or other promotional material • New Product Committee or other supervisor designated to review new products - review new structured products proposed for sale
Resources	<ul style="list-style-type: none"> • Information about a product to be sold • Order records/reports • Account records of option approval
Frequency	<ul style="list-style-type: none"> • As necessary - conduct reviews of new products • As necessary - review/approval advertising, sales or other promotion material for necessary disclosures • As necessary - conduct training regarding products • Daily - approve accounts, review transactions • Weekly - evaluate secondary market pricing (if applicable)
Action	<ul style="list-style-type: none"> • Submit a new structured product to the new product review process as outlined in the chapter <i>FINANCIAL AND OPERATIONS PROCEDURES - Risk Management - New Products</i> particularly considering necessary disclosures when selling the product • Submit sales material and other promotional material to Compliance for review and approval • Train supervisors and RRs regarding structured products in general and about the specifics of individual products to be offered • Review purchases of structured products <ul style="list-style-type: none"> ○ For retail accounts, confirm customer has been approved for options trading and specifically a level to purchase options ○ For retail accounts, conduct reviews for suitability including determination that the structured product meets the customer's stated investment objectives ○ Identify customer concentrations in structured products and determine suitability

	<ul style="list-style-type: none"> ○ Confirm necessary disclosures were provided • If SAMCO trades structured products, conduct independent reviews of desk prices in the secondary market
Record	<ul style="list-style-type: none"> • New product approval including due diligence reviews and determination of necessary disclosures • Advertising, sales and promotional materials reviewed by Compliance • Customer account review for suitability to purchase structured products • Order records/reports, reviews of concentration, disclosures provided, with reviewer's initials and date of review and notes of action taken, if any • Records of training including when conducted, who attended, and subjects included • Reviews of pricing in the secondary market (if applicable)

Structured products generally are securities that are derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance and/or a foreign security. There are many variations of structured products and different features such as principal protection; payment of interest above market rates; and capping upside participation. Structured products have a fixed maturity and some may be listed while others are thinly traded.

Structured products typically have two components, a note and a derivative (often an option). The note pays interest at a specified rate and interval while the derivative establishes the payment at maturity. Structured products are generally subject to the requirements for public offerings of securities under the '33 Act and are usually offered from a shelf registration.

Principal-protected notes are discussed in a specific subsection.

10.32.1 Due Diligence

New structured products are subject to SAMCO's new product review procedures. Refer to the section *New Products* in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*. This includes a determination of the types of eligible purchasers. In particular, the New Product Committee will review the following for structured products:

- The appropriateness of fees and other incentives
- Nature of the new structured product
- Target investors and whether the product is appropriate for the targeted investors

SAMCO will not rely on a third-party's assessment about the appropriateness of structured products for individual investors; it will conduct its own independent evaluation.

10.32.2 Public Communications

All sales materials communications with the public (sales materials, advertising, promotional materials, other written communications, public appearances, *etc.*) must be fair and balanced regarding risks and benefits. Sales materials must be clear and not misleading and should enable an investor to evaluate the investment from a risk/reward perspective. If returns are discussed, it should be clearly disclosed how returns are linked to an underlying asset. Sales material must be approved by Compliance prior to distribution consistent with the requirements in the section *Advertising And Sales Literature* in the chapter *COMMUNICATIONS WITH THE PUBLIC*.

The following are necessary disclosures about principal-protected notes, where appropriate:

- The level of principal protection offered

- The credit-worthiness of the guarantor
- The potential returns and pay-out structure (including any limits on upside potential)
- The investor's ability to access funds pending maturity date or the expiration of a lock-up period
- Any costs or fees that might affect the return of principal
- Description of the derivative component of the product (cannot be represented as ordinary debt securities)
- Statements about the product having a ticker symbol or is approved for listing balanced with risks that an active and liquid trading market may not develop

10.32.3 Eligible Accounts

[FINRA Rule 2360]

Only accounts approved for option trading, and specifically approved for purchasing options, will be eligible to purchase structured products.

If the structured product is issued by SAMCO, or an affiliate of SAMCO, it can be sold to discretionary accounts only with the prior specific written approval of the customer.

SAMCO may impose additional requirements for eligibility (investment objectives of the account, *etc.*) depending on the individual structured product.

10.32.4 Suitability

Because of the potential complexity of structured products, RRs must determine the suitability of potential purchasers, including the customer's:

- financial situation including income and liquid net worth
- age
- investment experience
- ability to bear the risks involved with the product
- knowledge and experience in financial matters that the customer can be reasonably expected to be capable of evaluating the risks of the recommended transaction

RRs should inform the customer of the features of the structured product being recommended. Recommendations may only be made to eligible customers, as explained above.

10.33 Short Sales

[SEC Regulation SHO; SEC Division of Market Regulation Responses to Frequently Asked Questions Concerning Regulation SHO: <http://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order records
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Comply with short sale price test requirements through systems to: <ul style="list-style-type: none"> ○ Determine when a covered security becomes subject to the price test ○ Monitor, on a real-time basis, the national best bid to determine permitted execution or display prices ○ Record a "snapshot" of the national best bid at the time a

	<p>short sale order is submitted</p> <ul style="list-style-type: none"> ○ Confirm only orders that are exempt are marked "short exempt" ○ Monitor and address latencies in obtaining data regarding the national best bid <ul style="list-style-type: none"> • For riskless principal transactions that are marked "short exempt," systems are in place to confirm that: (i) the offsetting transaction occurred after the customer order was received; and (ii) the offsetting transaction is allocated to a riskless principal or customer account within 60 seconds of execution • Take reasonable steps to enforce the policies and procedures, including conducting regular post-trade analysis • Review for: <ul style="list-style-type: none"> ○ compliance with price test requirements ○ sell orders marked "long" or "short" or "short exempt" ○ locate information (affirmative determination) on short sells including who was contacted and the date advised the stock could be borrowed
Record	<ul style="list-style-type: none"> • Record of the national best bid at the time of execution or display of a short sale order (e.g., a "snapshot" of the market) • Records (available in a time-sequenced manner) that enable SAMCO to accurately and readily reconstruct, in a time-sequenced manner, all orders executed based on the riskless principal exemption • Initials or other record of review on order records and action taken, if any • Locate information on order records

A "short sale" is defined as the sale of a security that the seller does not own or any sale that is completed by the delivery of a security borrowed by or on behalf of the account of the seller. The exercise of a long put by someone who does not own the underlying stock to deliver against the exercise will have engaged in a short sale and the stock must be borrowed and delivered within the required timeframe.

Determination of whether a sale is long or short also requires that the seller must net all positions in the security. This includes netting positions held in accounts that are related or under common control. For example, a customer is long 1,000 shares of Security A in an account. The customer also cross guarantees, for Regulation T and margin purposes, a "short account" for the benefit of a family member who is short 1,000 shares of Security A. The net position would be zero; if the customer sells shares of Security A, the sale would be deemed a short sale.

Accounts are considered related or controlled if the customer:

- exercises discretion over the account;
- cross guarantees the account for Regulation T or margin purposes; or,
- has been granted a power of attorney to execute transactions in the account.

10.33.1 Key Defined Terms

"**Listing market**" means the effective transaction reporting plan for the covered security. While the two reporting plans define the term "listing market" similarly, their treatment of dually listed securities differs. Specifically, the CTA Plan looks to where the security was first listed, while the NASDAQ UTP Plan looks to the market with the highest number of the average of the reported transactions and

reported share volume for the preceding twelve-month period. The listing market is responsible for monitoring the trading in stocks listed on its marketplace and for notifying market participants when a circuit breaker has been imposed.

The Short Sale Price Test applies to "**covered securities**" which are "NMS Stocks" as defined under Rule 600(b)(47)[4] of Regulation NMS. The Short Sale Price Test covers all securities, except options, that are listed on a national securities exchange whether traded on an exchange or in the OTC market, but does not include non-NMS stocks quoted on the OTC Bulletin Board or elsewhere in the OTC market.

Rule 201 applies to "**trading centers**," which are defined in Rule 600(b)(78) of Regulation NMS as a "national securities exchange or national securities association that operates an SRO trading facility; an alternative trading system; an exchange market maker; an OTC market maker; or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent." Consequently, any entity that executes a short sale order in a covered security must comply with the Short Sale Price Test.

10.33.2 Short Sale Price Test

[SEC Regulation SHO Rule 201; SEC FAQ concerning Regulation 201: <http://www.sec.gov/divisions/marketreg/rule201faq.htm>]

Short sales of covered securities are subject to a circuit breaker and uptick rule. When a circuit breaker is triggered by the listing market, short selling is permitted only at a price above the current national best bid. The following requirements apply:

- A short sale order may not be executed or displayed at a price that is less than or equal to the current national best bid if the price of the covered security decreases by 10% or more from the security's closing price determined by the listing market as of the end of regular trading hours on the prior day.
- The above requirements apply for the remainder of the day and the following day when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan.

SAMCO's systems identify covered securities subject to price test requirements. Traders are responsible for complying with price test requirements.

10.33.2.1 Exemptions To The Short Sale Price Test

There are several exemptions to the Short Sale Price Test. The exemptions apply when the price test circuit breaker is triggered. When relying upon the following exemptions, a broker-dealer must mark the order "short exempt."

- **Broker-Dealer Provision.** Rule 201 permits a broker-dealer to mark certain qualifying sell orders as "short exempt" if the broker-dealer reasonably determines that it is submitting the short sale order to the trading center at a price that is above the current national best bid at the time of submission.
- **Sellers Delay in Delivery.** Orders may be marked "short exempt" when a broker-dealer has a reasonable basis to believe that a seller owns the securities, but is unable to deliver them prior to settlement because of circumstances outside of the seller's control.
- **Odd Lot Transactions.** An odd lot short sale order may be marked "short exempt" by a market maker if it has a reasonable basis to believe that the order offsets a customer odd-lot order or liquidates an odd-lot position that changes such broker-dealer's position by no more than a unit of trading.
- **Domestic and International Arbitrage.** Certain domestic or international arbitrage transactions may be marked "short exempt."
- **Over-Allotments and Lay-Off Sales.** Rule 201(d)(5) permits a broker-dealer to mark as "short exempt" short sale orders by underwriters or members of a syndicate in connection

with over-allotments, or in connection with lay-offs by the same persons through a rights or standby underwriting commitment.

- **Riskless Principal Transactions.** Rule 201(d)(6) permits a broker-dealer to mark short sale orders "short exempt" when the broker-dealer facilitates customer buy orders or sell orders where the customer is net long, and the broker-dealer is net short but is effecting the sale as riskless principal. Rule 201(a)(8) defines the term "riskless principal" to mean "a transaction in which a broker or dealer, after having received an order to buy a security, purchases the security as principal at the same price to satisfy the order to buy, exclusive of any explicitly disclosed markup or markdown, commission equivalent, or other fee, or, after having received an order to sell, sells the security as principal at the same price to satisfy the order to sell, exclusive of any explicitly disclosed markup or markdown, commission equivalent, or other fee."
- **Transactions on a Volume-Weighted Average Price Basis.** Orders executed on a volume-weighted average price ("VWAP") may be marked "short exempt" provided that they satisfy several conditions in Rule 201(d)(7).

10.33.3 Marking Orders

[SEC Regulation SHO Rule 200(g)]

All sell orders are required to be identified on the order record as "long," "short," or "short exempt" (if applicable) at the time of entry.

A sell order may be marked "long" when the seller owns the security being sold and the security either is in the physical possession or control of SAMCO or it is reasonably expected that the security will be in the physical possession or control of SAMCO by settlement date.

A sell order should be marked "short" when the security being sold is not owned by the seller and will require it to be borrowed to make delivery by settlement date. See the section *Locate And Delivery Requirements* regarding the requirement to borrow securities.

Short sales effected in covered securities when a circuit breaker price test is triggered may be marked "short exempt" if they qualify for the exemption.

10.33.4 Locate And Delivery Requirements

[SEC Regulation SHO Rule 203]

Prior to effecting a short sale in an equity security, there is an obligation to "locate" securities available for borrowing and delivery by settlement date. The "locate" must be determined prior to order entry. Exceptions to this requirement are listed below.

It is the RR's responsibility to contact Operations (or consult a "borrow" list if available) to confirm whether the security being sold short may be borrowed. The borrow list relied upon must be less than 24 hours old. The following locate information must be recorded on the order:

- if obtained from a person, the name of the person and the number of shares to be borrowed and the date
- if obtained from an authorized "borrow list," notation that the list was consulted and the date

If affirmation is obtained from someone outside SAMCO, the order record must also include the name of the person's employer.

10.33.4.1 Exceptions From The Locate Requirement

The following short sale orders are not required to comply with the locate requirement:

- Orders received from another broker-dealer (the originating broker-dealer has the obligation to comply with the locate requirement)
- *Bona-fide* market making transactions

10.33.5 Close-Out Requirements For Fail To Deliver

"Naked short selling" is an abusive practice where the seller does not intend to deliver securities in time for settlement (including deceiving a broker-dealer about their locate source or ownership of shares). Close-out requirements apply to **all** equity securities. Obligations to close-out fails to deliver are the responsibility of the participant of a registered clearing agency, *i.e.*, a broker-dealer that self-clears its own trades or the clearing firm on behalf of an introducing firm. The SEC's rules apply to "reporting securities" which are issuers registered under Section 12 of the Exchange Act or that are required to file reports under Section 15(d) of the Exchange Act. FINRA requirements apply to securities not covered by SEC Regulation SHO.

Operations (or a clearing firm if orders are introduced to a clearing firm) is responsible for closing out positions.

10.33.5.1 SEC Requirements For Reporting Securities

[SEC Securities Exchange Act of 1934 Rule 10b-21; SEC Regulation SHO Rule 204]

To prevent this abusive practice, the SEC has imposed requirements that **securities must be delivered for short sales of all equity securities by settlement date (T+3)**. If securities are not delivered by settlement day, the broker-dealer is obligated to close out the position by borrowing or purchasing securities by the beginning of regular trading hours on the following settlement day (T+4). **For long sales and bona fide market making activity**, the BD must close out the position no later than the beginning of regular trading hours on the 3rd consecutive settlement day following the settlement date (T+6).

For sales of securities under Rule 144 and other securities the seller is "deemed to own" and intends to deliver (such as securities not yet received after exercising an option or warrant): transactions must be closed out no later than the beginning of regular trading hours on the 35th calendar day following the settlement day for the transaction.

The purchase or borrow of securities does not qualify as a close-out if the BD or participant knows or has reason to know the securities will not actually be delivered by settlement [Rule 204(f)].

When a BD fails to close out a position as required under this rule, the BD may not accept a short sale order in that security from another person or effect an order in its own account until the fail to deliver is closed out.

10.33.5.2 FINRA Requirements For Non-Reporting Securities

[FINRA Rule 4320]

Participants of registered clearing agencies must take action on failures to deliver that exist for 13 consecutive settlement days in certain non-reporting securities. If the fail to deliver position is not closed out in the requisite time period, the participant or any firm for which it clears is prohibited from effecting further short sales in the security without borrowing, or entering into a bona fide arrangement to borrow, the security until the fail to deliver position is closed out.

10.33.6 Short Sales Of Securities Subject To A Public Offering

[SEC Regulation M Rule 105; SEC Release No. 34-56206; SIFMA Capital Markets Committee FAQs about Rule 105: http://www.sifma.org/capital_markets/docs/RegMQAon105.pdf]

A person may **not** purchase a security from an underwriter or broker or dealer participating in a public offering if the person sold the security short during the "Rule 105 restricted period." The Rule 105 restricted period is the shorter of:

- the period beginning five business days before the pricing of the offered securities and ending with such pricing; or
- the period beginning with the initial filing of the registration statement or notification on Form 1-A or Form 1-E and ending with the pricing.

Exceptions to the short sale limitation include the following.

1. Bona fide purchases: Restricted period short sellers may purchase offered securities if they make a bona fide purchase of the same security prior to pricing. A *bona fide purchase* must be:

- at least equal in quantity to the entire amount of the Rule 105 restricted period short sale(s);
- effected during regular trading hours;
- reported pursuant to an effective transaction reporting plan; and
- made after the last Rule 105 restricted period short sale and no later than the business day prior to the day of pricing.

In addition, the person may not have effected a short sale that is a reported transaction within 30 minutes before the close of regular trading hours on the business day prior to the day of pricing.

2. Separate accounts: A purchase of the offered security may be made in an account that sold short during the Rule 105 restricted period in a separate account if decisions regarding transactions for the account are made separately and without coordination of trading or cooperation among or between accounts.

3. Investment companies: An individual fund within a fund complex, or a series of a fund, will not be prohibited from purchasing the offered security if another fund within the same complex or a different series of fund sold short during the Rule 105 restricted period.

There are conditions that apply to these exceptions; Compliance should be consulted for further guidance regarding covering short sales in securities subject to a public offering.

10.34 Sale Of Control Or Restricted Stock

[SEC Securities Act of 1933 Rule 144 and Rule 145; SEC Rule 144 Guidance:
<http://www.sec.gov/divisions/corpfin/guidance/rule144interp.htm>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Proposed 144 or 145 sales
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Determine the seller's status (affiliate or non-affiliate) • Determine eligibility for selling the amount and timing of sale • Assist the customer in preparation of required forms
Record	<ul style="list-style-type: none"> • Records of forms filed and determinations are included in a file for Restricted Stock sales

10.34.1 Introduction

SEC Rule 144 provides a method for the resale of restricted or control securities. Rule 144 provides a safe harbor for the resale of restricted and control securities. It includes conditions which, if satisfied, permit holders of such securities to sell them publicly without registration and without being deemed underwriters. Rule 145 governs the offer or sale of securities received in connection with reclassifications, mergers, consolidations and asset transfers. Sellers under Rule 145 are afforded similar safe harbor to Rule 144 sellers.

Compliance should be consulted directly for assistance regarding the processing of Rule 144 and Rule 145 sales. This section is provided for quick reference only.

10.34.2 Restricted Securities Defined

Restricted securities generally are securities which were:

- Acquired directly or indirectly from the issuer or from an affiliate of the issuer (as defined below) in a transaction or series of transactions not involving a public offering
- Acquired from the issuer and are subject to the resale limitations of Regulation D under the Securities Act of 1933 or acquired in a transaction or series of transactions not involving a public offering subject to the resale limitations of Regulation D

10.34.3 Affiliate Defined

An "affiliate" of an issuer is a person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer. An affiliate can be an individual, certain relatives, trusts, estates, corporations or other entities in which the seller is a 10% beneficial owner, trustee, executor or one in a similar capacity.

10.34.4 Control Person And Control Securities

A "control" person is regarded as one who has the power to direct or cause the direction of the management and policies of an issuer of securities through significant stock ownership (generally 10% or more) or by virtue of holding a board or management position with that issuer.

Whether or not a customer has a control relationship with the issuer or is a "statutory underwriter" or holds "restricted securities" are legal questions.

"Control Securities" are those owned by an affiliate of an issuer of the securities.

10.34.5 Holding Period

Under Rule 144, the seller of restricted securities is subject to a one-year holding period prior to sale. In addition, if the securities were purchased, they cannot be sold until the full purchase price has been paid. If restricted securities are acquired as a gift, the one-year holding period is assumed to begin the date the donor acquired the shares. The donee's sales are subject to aggregation with sales made by the donor, for purposes of calculating limitations on amount sold.

10.34.6 Limitations On Amount Sold

Rule 144 limits the amount of restricted securities that may be sold during any three-month period. The seller's sales are also subject to aggregation with sales of restricted stock by others connected with the seller. The limitations relate to a percentage of the outstanding shares and the average trading volume in the security. Non-affiliates of the issuer may make unlimited resales of restricted securities after a holding period of two years.

10.34.7 Filing Requirements

The seller is required to file Form 144 concurrent with placing the order or executing the transaction. Compliance should be consulted regarding the necessary filing requirements.

10.34.8 New Account Information Regarding Affiliates

SAMCO's new account form includes an inquiry whether the customer is an affiliate of an issuer. RRs are responsible for obtaining this information and, if the customer is an affiliate and places an order to sell shares of the issuer, contacting Compliance for instructions on executing the order under Rule 144.

10.34.9 Lending And Option Writing On Control And Restricted Securities

The lending of money, extension of loan value, or use as collateral of restricted securities are subject to specific limitations. Compliance should be contacted prior to any such arrangement.

Covered listed options may be written on underlying control or restricted stock if the stock is saleable when the option is written. Compliance should be contacted to determine the salability of the underlying securities prior to writing covered options.

10.35 Unregistered Resales Of Restricted Securities

[FINRA Regulatory Notice 09-05]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor• Operations personnel
Resources	<ul style="list-style-type: none">• New accounts at opening• Proposed sales of potentially unregistered securities• Order records or transaction reports• Physical certificates
Frequency	<ul style="list-style-type: none">• When new accounts are opened with a potentially questionable transaction• As required - assist RR in evaluating a potential sale• Daily - review of order records/transaction reports• As required - review certificates
Action	<ul style="list-style-type: none">• Review for "red flags" listed in this section• If a red flag is identified, contact the RR for more information about the customer and the block being sold; contact the customer if necessary to confirm the securities are not unregistered or restricted• Operations personnel should refer questionable certificates to the designated supervisor for follow up with the RR or customer
Record	<ul style="list-style-type: none">• Order records/transaction reports• New account records• Records of certificates received• Designated supervisor's record of action taken, if applicable, in a log, on the order record, in a daytimer, or in another record

Broker-dealers are prohibited from selling unregistered securities unless the sale falls within an available exemption such as Rule 144 sales discussed in the prior section. Avoiding such sales is based on knowing the customer and the securities to be sold. The RR should be aware of "red flags" that may indicate a customer is selling unregistered securities, including the following examples:

- A customer opens a new account and delivers physical certificates representing a large block of thinly-traded or low-priced securities.
- A customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale.
- A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security.
- Share certificates reference a company or customer name that has been changed or that does not match the name on the account.
- The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired.
- There is a sudden spike in investor demand for, coupled with a rising price in, a thinly-traded or low-priced security.
- The company was a shell company when it issued the shares.
- A customer with limited or no other assets under management at SAMCO receives an electronic transfer or journal transactions of large amounts of low-priced, unlisted securities.
- The issuer has been through several recent name changes, business combinations or recapitalizations, or the company's officers are also officers of numerous similar companies.
- The issuer's SEC filings are not current, are incomplete, or nonexistent.

When confronted with a customer wanting to sell a block of stock where there may be a question about the registered status of the stock, the following questions should be asked:

- How long has the customer held the securities?
- How did the customer acquire the securities?
- Does the customer intend to sell additional shares of the same class of securities through other means?
- Has the customer solicited or made any arrangement for the solicitation of buy orders in connection with the proposed resale of unregistered securities?
- Has the customer made any payment to any other person in connection with the proposed resale of securities?
- How many shares or other units of the class are outstanding, and what is the relevant trading volume?

10.36 Reporting Of Insider Transactions

[SEC Securities Exchange Act of 1934 Section 16(a); SEC Exchange Act Section 16 and Related rules & Forms (Q & A): <http://www.sec.gov/divisions/corpfin/guidance/sec16interp.htm>]

Under Section 16(a) of the Exchange Act, directors, officers, and >10% holders of equity securities of a publicly-traded company are required to report their purchases and sales of the issuer's securities to the SEC (and, if the security is listed on a national exchange, with the exchange where listed) as follows:

- at the time the security is registered on a national securities exchange or by the effective date of the registration statement
- within 10 days of becoming a 10% beneficial owner, director or officer
- by the end of the second business day following a purchase or sale transaction

Alternate reporting period requirements apply to two categories of transactions in which the insider does not control and may not be able to predict when the transaction will occur:

- Transactions pursuant to a contract, instruction or written plan
- Discretionary transactions pursuant to employee benefit plans such as fund switching transactions

In these instances, the date the executing broker-dealer or plan administrator notifies the insider of the transaction is deemed the date of execution for reporting purposes, as long as the notification is not later than the 3rd business day following trade date. The SEC may also provide different due dates for limited types of transactions where two-day reporting is not feasible.

If the issuer maintains a corporate website, the issuer is required to post the filing on the site no later than the end of the business day following the filing.

Transactions by directors or officers that result in "short-swing" profits but that are exempt from Section 16(b) are also subject to the two-day reporting requirement.

The obligation to report is the responsibility of the insider. Customers should be encouraged to contact their counsel if they have questions, and Section 16 should be referenced for specifics regarding filing requirements.

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10.37 Penny Stocks

[SEC Securities Exchange Act of 1934 Rule 15g1-9, Rule 15g1-100 and Schedule 15G; FINRA Notice to Members 93-55, 92-42 and 92-38]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • New Account Form • Order Records • Daily Transaction Report • Risk Disclosure Documents
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • FINOP: <ul style="list-style-type: none"> ○ Include required disclosures on confirmations • RR's supervisor, for customers who are not "established" customers: <ul style="list-style-type: none"> ○ Determine required signed risk disclosure document is received prior to effecting the first 3 penny stock purchases and the two-business-day cooling-off period has been satisfied ○ Review new account form and determine investment objectives are consistent with penny stock purchases ○ Review and initial signed risk disclosure document ○ Submit document to Compliance or New Accounts
Record	<ul style="list-style-type: none"> • Initials on the Risk Disclosure Document • Risk Disclosure Documents are retained in the customer's new account file

10.37.1 General Requirements

[SEC Securities Exchange Act of 1934 Rule 15g-1 through 15g-6 and Rule 15g-9]

Securities that are identified as "designated securities" (penny stocks) are subject to certain requirements including:

- provision of risk disclosure to a customer other than an "established customer"
- a "cooling-off period" of two business days after the risk disclosure is sent before a penny stock may be purchased
- disclosure of certain price information relating to the customer's purchase
- disclosure of compensation received by the broker or dealer
- inclusion of prices of penny stock positions on the customer's monthly statement and a legend regarding the value assigned to the penny stock

There are five primary exemptions from these requirements:

1. The price of the security is \$5.00 or more per share.
2. The purchaser is either an accredited investor or established customer or is a principal affiliated with the issuer (as defined in the rule).
3. The transactions are not recommended.
4. The broker-dealer's commissions, mark-ups and mark-downs from penny stock transactions did not exceed 5% of total commissions or mark-ups and mark-downs during the 3 months immediately preceding the transaction, AND, the broker-dealer has not been a market maker in the penny stock to be purchased by the customer for the immediate 12 months preceding the transaction.

5. Any other transaction exempted by the SEC.

The following sections outline SAMCO's requirements for penny stock transactions subject to the rules.

10.37.2 Penny Stock Defined

[SEC Securities Exchange Act of 1934 Rule 3a51-1; SEC Guide to Broker-Dealer Registration Section V(F)]

Penny stocks are equity securities identified as "designated securities" under the SEC's Penny Stock Rule. Penny stocks are low-priced securities (less than \$5.00 per share) with the Rule listing securities that are **not** included in the definition, as follows.

The following are **not** considered penny stocks subject to the requirements outlined in following sections:

- A reported security as defined in Regulation NMS Rule 601.
- The stock is priced at \$5.00 or more per share.
- Shares of investment companies.
- The stock is listed on an exchange.
- Security futures.
- The issuer has net tangible assets in excess of \$2 million, if the issuer has been in continuous operation for at least 3 years, or \$5,000,000 if in continuous operation for less than 3 years; or average revenue of at least \$6,000,000 for the last 3 years.

Penny stocks include the equity securities of private companies with no active trading market if they do not qualify for one of the exclusions from the definition of penny stock.

RRs should assume that any unlisted securities priced less than \$5.00 per share may be subject to the penny stock requirements.

10.37.3 Established Customer Defined

The requirements of the Rule do not apply to penny stock transactions for "established customers." The term established customer includes a customer who:

- has maintained an account (effected a transaction, made a deposit of funds or securities) more than one year previously, or
- has made three purchases of penny stocks that occurred on separate days and involved different issuers.

10.37.4 Suitability Information

RRs are required to obtain information from the customer including prior investment experience, investment objectives, and financial situation. This information is recorded on SAMCO's new account form which must be completed prior to effecting a transaction in a penny stock. With this information, the RR is required to reasonably determine whether transactions in penny stocks are suitable for the customer.

Prior to effecting a transaction in a penny stock, the new account form must be completed and submitted to the designated supervisor for approval. The designated supervisor should review the information included on the form to confirm the suitability of penny stocks for the customer's account.

10.37.5 Risk Disclosure Document

Prior to effecting a penny stock transaction for a customer, the RR must furnish the customer with a copy of SAMCO's penny stock disclosure document titled "Important Information On Penny Stocks" and obtain the customer's signature on the disclosure document acknowledging receipt. The

disclosure document may NOT be copied on SAMCO letterhead but must be reproduced on plain paper.

Furnishing this disclosure and obtaining the customer's signature evidencing receipt is required for each of the first three penny stock transactions before orders are entered.

10.37.6 Two-Business-Day Waiting Period

Penny stock transactions may **not** be executed until at least two business days after the suitability statement and agreement to the transaction has been sent either electronically or by mail. These documents must also be signed by the customer and received by SAMCO.

10.37.7 Disclosure Of Quotations And Other Information

Rule 15c-3 prescribes certain required information that must be disclosed to the customer at or prior to the time of effecting a penny stock transaction. The designated supervisor is responsible for establishing procedures to ensure the necessary disclosures are included on customers' confirmations. Traders are responsible for including notations on order tickets that include the required information regarding bids or offers. A copy of Rule 15c-3 will be provided to traders responsible for recording the required information. The designated supervisor is responsible for establishing procedures to ensure the bid or offer information is included with customer confirmations of penny stock transactions.

10.37.8 Disclosure Of Compensation

SAMCO's compensation for penny stock transactions will be disclosed on customer confirmations as follows:

- For agency transactions, the amount of the compensation.
- For riskless principal transactions where SAMCO is NOT a market maker, the difference between the price to the customer and the contemporaneous purchase or sale price.
- For other principal transactions, the difference between the price to the customer and the prevailing market price.

"Active and competitive" market, for purposes of calculating mark-ups or mark-downs, is defined in the penny stock rules to include a market where the market maker, in the five business days preceding the transaction, executes less than 20% of the aggregate number of all transactions in the penny stock reported to an automated interdealer quotation system. Where SAMCO dominates the market, contemporaneous cost will be used to calculate mark-ups or mark-downs.

Traders are responsible for recording the required information on order records. This information is to be transmitted for inclusion on customer confirmations. The designated supervisor is responsible for establishing procedures for ensuring that required compensation disclosures are included on customer confirmations.

10.38 Sales To Military Personnel On Military Installations

[Military Personnel Financial Services Protection Act]

The following requirements apply when offering life insurance products and annuities to military personnel and their dependents on military installations:

- Referral fees upon securities sales or solicitations are prohibited unless the fee recipient is both registered with a broker-dealer and appropriately qualified under relevant SRO rules.
- Perform a suitability determination.
- Provide required written disclosures which must be provided at the time of the sale or solicitation. Disclosures must:
 - clearly and conspicuously disclose the identity of the registered broker-dealer offering the securities, and

- inform potential investors that the securities offered are not being offered by or provided on behalf of the federal government and are not sanctioned, recommended, or encouraged by the federal government.

Disclosures required when selling life insurance are included in a corresponding section in the chapter *INSURANCE PRODUCTS*.

10.39 Tax Switching Transactions

Transactions that are effected to accomplish certain tax results (*i.e.*, establishing a gain or a loss) must be handled consistent with prevailing securities and tax rules and laws. Riskless tax switching trades (also known as "wash sales") are not allowed and may represent a violation of rules prohibiting pre-arranged trades.

Under tax laws, a "wash sale" occurs when someone sells a stock, mutual fund, or some other security at a loss and buys the same thing, or something "substantially identical," within 30 days before or after the sale. The seller cannot deduct the loss on that sale on his or her tax return for that year. "Substantially identical" means buying and selling the same security or one that is almost the same, such as selling an index fund and buying another index fund based on the same underlying index. Customers should be referred to their tax advisers when questions arise regarding tax loss strategies and what may be considered a security that is substantially identical.

A cross transaction must represent a beneficial change in ownership of the security sold and purchased. Where a customer wishes to sell a security and buy it back in their own account, this transaction must be effected at the risk of the market with no guarantee of the price at which the security may be repurchased. The prohibition applies to equity and debt securities. The following is an example of this type of transaction.

A customer wishes to sell Company A at year-end to establish a loss for tax purposes. He also ultimately wants to maintain his position in the security in his account. He asks that you sell the shares and buy them back in his IRA account 31 days later at the same price.

Even though the proposed transaction would meet the 30-day test, this transaction would be disallowed by the IRS because there is no beneficial change in ownership of the security and the customer would be guaranteed to sell and repurchase the security at the same price. In this example, an appropriate method of handling these orders would be to enter a sell transaction and, after it has been executed, enter a buy transaction at market risk after 30 days have elapsed. This places both transactions at the risk of the market and does not involve a guaranteed cross.

10.40 Extended Hours Trading

[FINRA Rule 2265; NASDAQ Rule 4631]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order records • Daily transaction reports
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Review transactions for suitability, active trading, and other areas as described in this chapter • Confer with Compliance, if necessary • Take corrective action, if necessary, which may include consulting with the RR; reviewing information about the customer's account including new account information and prior trading activity; restrict

	activity in the customer's account.
Record	<ul style="list-style-type: none"> Initials and date of review on reports reviewed and/or notations in Daytimer or other supervisory log or record

SAMCO offers its customers the ability to enter orders during extended hours trading. All customers are provided the "Extended Hours Trading Risk Disclosure" prior to giving customers access to extended trading sessions.

10.41 Order Audit Trail System (OATS)

[FINRA Rule 7400 series; FINRA OATS web page (<http://www.finra.org/RegulatorySystems/OATS/index.htm>); NASDAQ Rule 6950 series]

10.41.1 Reporting Member Exclusion

[FINRA Rule 7410(n)]

SAMCO is not considered a "Reporting Member" and is exempt from order data transmission requirements because it meets the following criteria.

- The Firm:
 - engages in non-discretionary order routing where it immediately routes **all** orders to a single receiving Reporting Member;
 - does not direct or maintain control over subsequent routing or execution by the Receiving Member; **and**
 - has a written agreement with the receiving Reporting member specifying the respective functions and responsibilities of each party.
- In addition, the Receiving Member records and reports all information required under FINRA Rules 7440 and 7450.

If any of the above criteria change, SAMCO will be deemed a Reporting Member and will be required to report to OATS. Compliance will maintain copies of agreements with the Reporting Member.

10.42 Order Routing And Reporting

[SEC Regulation NMS Rule 601]

As required by Rule, SAMCO routes and executes orders in NMS securities only through exchanges and other facilities that have an effective transaction reporting plan filed with the SEC and will promptly report all information required by the reporting plan.

10.42.1 Disclosure Of Order Routing

[SEC Regulation NMS Rule 606]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Customer agency order trade data
Frequency	<ul style="list-style-type: none"> Publish reports - quarterly Provide individual customer order routing information - as requested Notify customers of availability of information - annually

Action	<ul style="list-style-type: none"> • Collect necessary data for Regulation NMS Rule 606 report • Publish report on the internet by the end of the month following each calendar quarter • Collect individual customer order routing information • Respond to requests from customers for order routing information • Send annual notification to customers
Record	<ul style="list-style-type: none"> • Copies of quarterly reports • Records of customer requests and fulfillment of requests • Records of annual customer notification including when and how provided

SAMCO is required to publish quarterly statistics regarding its customer agency order routing practices. The purpose of the report is to provide the public with information on how broker-dealers route their customers' orders, to enable customers (and others) to evaluate order routing practices. The Rule was adopted by the SEC to enhance market transparency and foster competition among market participants.

This information is available on the internet and in hard copy for those who do not have access to the internet. The report is published by the end of the month following the calendar quarter reported. In addition to quarterly reports, information about the routing of individual customer orders is available to customers, upon request, for the prior six months' trading activity.

In addition, SAMCO will send an annual notification to customers that the above information is available, as required by the Rule.

10.42.2 Orders Covered By The Rule

The report includes customer orders in exchange-listed securities, NASDAQ securities, and listed options. It does not include the following orders:

- equity orders with a market value of \$200,000 or more
- option orders with a market value of \$50,000 or more
- firm trading account orders (proprietary orders)
- orders for OTC Bulletin Board securities

10.42.3 Information Included In The Reports

Extensive statistical information is available in the reports. In summary, SAMCO reports on the top ten venues to which orders are routed (including internal routing) and any other venues that receive more than 5% of SAMCO's order flow.

The Rule also requires disclosures regarding internalization of orders and any relationship SAMCO has with a venue, such as payment for order flow.

10.42.4 Customer Requests For Order Routing Information

Customers may request information on how their individual orders were routed for the past six months. This information may be obtained by making a request to Operations.

10.43 Distribution, Consolidation, And Display Of Information

[SEC Regulation NMS Rule 603]

If SAMCO is the exclusive source of information regarding quotations or transactions in an NMS stock, it will comply with requirements to provide information to a securities information processor on terms that are fair and reasonable.

10.44 Sales Contests

10.44.1 Introduction

In general, sales contests will be conducted in a manner that exercises good taste and proper judgment.

10.44.2 General Guidelines

The following general guidelines apply to sales contests:

- If an entity other than SAMCO finances the contest or provides remuneration for the contest, disclosure will be made to customers where necessary.
- Guidelines will be established for determining the appropriateness of securities the subject of the contest for the customers to be solicited.
- Designated supervisors will be responsible for selling efforts and appropriateness of sales subject to a contest. Designated supervisors may also determine whether to restrict the types of accounts that may participate including employee or employee related accounts or discretionary accounts.
- Refer to the chapter *MUTUAL FUNDS* regarding specific guidelines that apply to contests for the sale of mutual funds and to the chapter *MUNICIPAL SECURITIES* for special requirements under MSRB rules.

10.45 Cash And Non-Cash Compensation Policy

[FINRA Rule 2310 and 2320; NASD Rule 2830; MSRB Rule G-20]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests from RRs, managers, or outside firms regarding sponsorship of cash or non-cash compensation relating to the sale of securities
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review request and ensure compensation is consistent with rule requirements and limitations • Obtain Sponsor Request Form • Approve or disapprove compensation in writing • Obtain Reimbursement Form from sponsor with RR payment • Establish and maintain required records of approved compensation programs
Record	<ul style="list-style-type: none"> • Requests • Sponsor Request Forms • Reimbursement Forms • Approval/disapproval of compensation arrangement

Regulators' rules restrict compensation relating to the sale and distribution of debt, equity, direct participation program (DPP), REIT securities, and municipal securities. RRs may not accept (directly

or indirectly) cash or non-cash compensation from outside firms or persons. The only exception includes compensation arrangements specifically approved by SAMCO.

10.45.1 Definitions

Cash compensation is defined as follows:

Any discount, concession, fee, service fee, commission, asset based sales charge, loan or override, or cash employee benefit received in connection with the sale and distribution of securities.

Non-cash compensation is defined as follows:

Any form of compensation received in connection with the sale and distribution of securities, other than cash compensation, which includes, but is not limited to, merchandise, gifts and prizes, travel expenses, meals and lodging.

10.45.2 Approval

Any compensation as defined in this section and paid directly to the RR requires sponsor submission of the Sponsor Request Form and approval by Compliance **prior to** accepting compensation. The following section outlines types of non-cash compensation permitted without specific approval, unless otherwise noted.

10.45.3 Types Of Permissible Non-Cash Compensation

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

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

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

- The program must be based on the RR's total production with respect to all of that type of security sold by SAMCO (investment company, DPP, etc.).
- Credit received for each security is equally weighted.
- Only SAMCO employees may participate.
- Other firms may make contributions to the program, provided they do not participate, directly or indirectly, in the organization of the program. However, the outside entity may provide a speaker for the meeting.

10.46 Prohibited Transactions And Practices

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order records • Daily Transaction Report • Customer monthly statements
Frequency	<ul style="list-style-type: none"> • Daily review of order records and Daily Transaction Report • Review of customer monthly statements
Action	<ul style="list-style-type: none"> • Reviews of transactions should include consideration of prohibited transactions prescribed in these policies. Action on identified prohibited transactions could include consultation with Compliance to confirm whether transactions in question are prohibited and to identify corrective action. • Some specific guidelines for review include the following. Contact Compliance for guidance regarding corrective action: <ul style="list-style-type: none"> ○ Wash transactions result from cross transactions between two accounts with the same beneficial owner and at no market risk, <i>i.e.</i>, the buy and sell are pre-arranged at a set price. Wash transactions should be cancelled and securities sold at the risk of the market. ○ Cross transactions on a frequent basis particularly in thinly-traded securities may be an indicator of supporting the market. ○ Orders by the same RR frequently marked for "at the opening" or "at the close" may be an indication of an attempt to influence the market. ○ A pattern of purchasing securities in one account and transferring to another account at a later date may indicate parking. ○ Excessive trading may be an indicator of churning. See the section <i>Active Accounts</i> for guidance regarding action on actively traded accounts. ○ RRs trading ahead of customer block orders that may affect the market price of a security may indicate frontrunning.
Record	<ul style="list-style-type: none"> • Initials on order records • Initials on Daily Transaction Report • Branch Manager's Log • Notes/memos to RR's file, if appropriate

10.46.1 Introduction

RRs are required to handle customer transactions in compliance with regulators' rules. This section highlights certain types of prohibited transactions.

10.46.2 Unauthorized Trading

No employee may enter a transaction before contacting the owner of the account (or the authorized agent for the owner) unless the employee has specific written authorization to act on the customer's behalf. Failure to contact the customer or the customer's agent can result in the customer later rescinding the transaction because it was not authorized. Engaging in unauthorized transactions

subjects the employee to regulatory and Firm discipline which may include fines and/or termination depending on the seriousness of the violation. If SAMCO determines an RR engaged in unauthorized trading, any related losses will be charged directly to the RR.

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

10.46.3 Market Manipulation

[SEC Securities Exchange Act of 1934 Rule 10b-5; FINRA Rule 6140]

SAMCO and its employees may not engage in manipulative activity to artificially affect the price of a security including entering orders at successively higher prices; creating or inducing a false or misleading appearance with respect to the market in a security; trading at the close to influence the price of a security; or participate (directly or indirectly) in the profits of a manipulative operation or knowingly manage or finance a manipulative operation. "Matched trades" where a person buys or sells a stock, with knowledge that a substantially offsetting transaction is going to be entered by someone, in order to mislead others about the extent of activity in, or the market for, a given stock is a form of market manipulation.

10.46.4 Prearranged Trading

An offer to sell coupled with an offer to buy back at the same or a higher price, or the reverse, is a prearranged trade and is prohibited. Options or written agreements such as repurchase agreements are not included in this prohibition.

10.46.5 Adjusted Trading

Adjusted trading is a prohibited practice that involves the sale by a customer of a security to a broker-dealer at a price above the prevailing market price and the simultaneous purchase of a different security at a price greater than its market value. This may be requested in instances where a bank or other fiduciary does not want to realize a loss on their books and engages in a scheme to avoid, disguise, or postpone losses. Federal banking regulators have stated that adjusted trading by federal financial institutions is an unacceptable and unsuitable investment practice.

10.46.6 Overtrading Or Undertrading

These are transactions at prices in excess of or below the prevailing market. Customer transactions must be executed at a price reasonably related to the market; overtrading and undertrading is not permitted.

10.46.7 Wash Transactions

Transactions between two accounts with no market risk and where there is no beneficial change in ownership may be considered a "wash sale." Customers sometimes request cross transactions for tax purposes between accounts with the same owner. Such transactions may violate rules and tax losses may be disallowed by the IRS.

There should be no pre-arrangement or guarantee of execution price for both sides of the transaction where there is no change in beneficial ownership. All such transactions should be executed at the risk of the market.

10.46.8 Cross Transactions

Firms and their employees may not engage in a practice of effecting cross transactions for the purpose of supporting or maintaining the market price of a security.

10.46.9 Orders At The Opening Or Close

Orders entered at the opening or close of the market for purposes of influencing the price of a security are prohibited.

10.46.10 Parking Securities

"Parking" is a prohibited practice where a trade or series of trades are effected for a person or entity and held in another person's or entity's account to disguise the investment activities of the original person or entity.

10.46.11 Churning

[FINRA Rule 2111.05(c) and 6140(c)]

Churning of a customer's account is prohibited. The term "churning" has a number of elements including:

- Control of the account by the RR
- Excessive transactions
- Intent to defraud which may be defined as the RR acting in the RR's own interest contrary to the customer's interest

An account that is "active" does not necessarily denote churning. An account's activity must be reviewed individually when reviewing for churning including the customer's objectives and the customer's control of the account.

SAMCO also may not engage in excessive trading in a proprietary account considering SAMCO's financial resources and/or considering the market for the security.

10.46.12 Prohibition Against Acting On Knowledge Of Other Orders

SAMCO and its employees may not enter orders for their own account to benefit from their knowledge of customers' orders in a particular security ("frontrunning"). This includes orders in securities that are derivatives (options, warrants, *etc.*) of the security being purchased or sold by the customer.

10.46.13 Trade Shredding

[FINRA Rule 5290]

"Trade shredding" (also known as "tape shredding") is the practice of breaking orders into multiple smaller orders for the primary purpose of maximizing commissions or other revenue. For example, a firm may receive a rebate from a particular market center for directing a certain number of transactions to that market center. SAMCO and its employees are prohibited from engaging in breaking up orders for the purpose of maximizing SAMCO's revenues or for any other prohibited purpose.

11 SUPERVISORY SYSTEM, PROCEDURES, AND CONTROLS

[SEC Securities Exchange Act of 1934 Section 15(f); NASD Rule 3010 and 3012; FINRA Rule 3130; FINRA web page: <http://www.finra.org/RulesRegulation/IssueCenter/SupervisoryControl/index.htm>; MSRB Rule G-27; NASDAQ Rule 3010]

11.1 Introduction

SAMCO has established a supervisory system, procedures and controls reasonably designed to comply with regulators' rules.

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

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

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

Responsibility	<ul style="list-style-type: none">• Who is the responsible supervisor? <i>Supervisors are sometimes referenced by name, sometimes by title or as "designated supervisor" which is cross-referenced to the "Designation Of Supervisors" table that appears in this manual.</i>
Resources	<ul style="list-style-type: none">• The information / reports / documents that supervisors use to conduct supervision.
Frequency	<ul style="list-style-type: none">• How often are supervisory reviews to be conducted (daily, weekly, etc.)?
Action	<ul style="list-style-type: none">• How supervision is to be conducted (<i>i.e.</i>, review a report, read correspondence, interview RR or customer, etc.).
Record	<ul style="list-style-type: none">• What record is made that supervision was conducted? <i>Generally supervisors are expected to initial and date reports or other records, note any action taken, and retain that information in their files.</i>

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

11.2 Responsibility

Responsibility for SAMCO's supervisory system, policies, and controls includes the following:

- Designated supervisors (line managers) are responsible for enforcing policies and procedures in their respective business areas.
- The Chief Compliance Officer (CCO) is responsible for establishing and maintaining the supervisory system, policies and procedures other than financial and operations procedures.
- The Financial and Operations Principal (FINOP) is responsible for establishing and maintaining systems, policies and controls regarding financial and accounting procedures and reporting.
- The Chief Operations Officer (COO) is responsible for establishing and maintaining systems, policies and controls regarding operations procedures.

11.3 Controls

11.3.1 Verification And Testing

SAMCO periodically conducts reviews to test and verify its supervisory system and controls.

Testing and verification generally include:

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

Records of testing are maintained by the department responsible for conducting testing and include:

- areas to be reviewed
- schedule of reviews
- reports of findings including a record of distribution of the report and responses from the supervisor of the area examined
- follow-up or corrective action taken

Testing and verification is the responsibility of:

- Compliance - compliance systems and procedures

11.3.2 Risk Management

[FINRA Notice to Members 99-92]

SAMCO has established risk management procedures which are outlined in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*, in the section *Risk Management*.

11.3.3 Outside Auditors

SAMCO's outside auditors conduct an annual review of internal financial and operational controls as well as compliance with selected rules and regulations. The FINOP (and other personnel, as required) is responsible for working with the outside auditors and providing them with requested information. The auditors' report is provided to senior management and SAMCO's audit committee (if an audit committee has been established) who are responsible for delegating responsibility for taking corrective action on exceptions noted in the report.

The FINOP retains records of outside audits and reports.

11.4 Written Compliance And Supervisory Procedures (WSP)

[SEC Securities Exchange Act of 1934 Rule 17a-4(e)(7); NASD Rule 3010(b) and 3012(a)]

Compliance is responsible for maintaining and updating SAMCO's compliance and supervisory procedures which are included in this manual.

This manual is updated and policies distributed as follows:

- New and amended rules and releases from regulators are reviewed on an ongoing basis and changes considered for the WSP and incorporated where necessary. Changes are considered at least bi-monthly.
- Changes are incorporated in the WSP including the date of the revision.
- Prior versions of the manual are archived for books and records purposes.
- When policy and procedure changes affect personnel, Compliance will distribute new or revised policies as follows:
 - In written form, where practical
 - By email
 - SamPoint Internal Website
- Compliance provides manuals to new employees and obtains receipts that are maintained in employee or other compliance files.
- If a new policy manual is distributed, receipts will be requested and maintained in employee or compliance files.
- Policies may be made available to employees in electronic format.

11.5 Chief Compliance Officer (CCO)

[FINRA Rule 3130(a)]

SAMCO has designated a CCO who is listed on the *Designation Of Supervisors* chart and Schedule A of Form BD which is filed with regulators.

11.6 Annual Certification Of Compliance And Supervisory Processes

[FINRA Rule 3130]

Compliance prepares an annual compliance report for the CEO (or equivalent officer).

11.6.1 Meetings Between CEO And CCO

The CEO meets once or more annually with the CCO to review compliance matters the subject of the annual certification.

11.6.2 Annual Report To CEO

[FINRA Rule 3130]

The CCO will prepare and provide the CEO (or equivalent officer) with an annual report that includes a review of SAMCO's supervisory system and procedures and key compliance issues. The CCO will meet with the CEO to discuss and review the report and will meet at other times, as needed, to discuss other compliance matters. If SAMCO has designated multiple CCOs, each CCO will meet with and prepare a report for the CEO annually.

The annual report will be provided to members of the board of directors (or equivalent senior management) and the audit committee, if one has been established. The report will be provided to

these governing bodies at the earlier of their next scheduled meetings or within 45 days after execution of the certification.

11.6.2.1 Certification

Annually (after receipt and review of the report), the Chief Executive Officer (or equivalent) will certify that SAMCO has in place processes to establish, maintain, review, test, and modify written compliance policies and written supervisory procedures reasonably designed to comply with regulators' rules. Certification does not, by itself, establish line supervisory responsibility for those involved in the certification process. If SAMCO has co-CEOs, each CEO will certify as if he/she were acting as sole CEO.

11.7 Supervision Of Producing Managers' Customer Account Activity

[NASD Rule 3012(a)(2)(A)]

Responsibility	<ul style="list-style-type: none"> • CCO • Designated supervisor of producing manager
Resources	<ul style="list-style-type: none"> • Various for supervision of producing managers (listed in supervisory matrixes in appropriate chapters, by subject)
Frequency	<ul style="list-style-type: none"> • CCO: <ul style="list-style-type: none"> ○ Monthly - calculations to determine if independent supervision or heightened supervision is required ○ Ongoing - maintain designations of producing manager supervisors • Designated supervisor of producing manager: <ul style="list-style-type: none"> ○ Quarterly - conduct heightened supervision if required ○ Various for ongoing reviews depending on type
Action	<ul style="list-style-type: none"> • CCO: <ul style="list-style-type: none"> ○ Identify producing managers ○ Identify senior or independent supervisors ○ Identify reviews to be conducted ○ If independent supervisor is used, arrange for alternation of responsibilities every 2 years or less ○ Identify producing managers subject to heightened supervision (if an independent supervisor is not used) and notify designated supervisor • Designated supervisor: conduct reviews of producing manager customer account activity
Record	<ul style="list-style-type: none"> • CCO records of producing managers and who supervises them including heightened supervision and calculation of commissions (if an independent supervisor is NOT appointed), if applicable • Designated supervisor: records of reviews conducted

Day-to-day customer account activity conducted by office managers, sales managers, regional or district managers or anyone performing similar supervisory functions ("producing managers") is subject to review and supervision by someone senior to or independent of the producing manager. Any level of customer account activity qualifies for designation as a producing manager, including only handling family accounts.

11.7.1 Designation Of Supervisors

Compliance is responsible for identifying producing managers subject to these supervisory procedures and designating supervisors to oversee their client activity. Supervisors must be senior to or "otherwise independent" of the producing manager.

A person "senior to" the producing manager is understood to be someone who does not report to the producing manager; whose compensation is not determined in whole or part by the producing manager supervised; who is not in the same chain of authority; and who has the authority to oversee, direct, and correct the activities of the producing manager and take necessary remedial actions, including termination, if and when necessary.

"Otherwise independent" means a person who does not report either directly or indirectly to the producing manager under review; who is situated in an office other than the office of the producing manager; and must not otherwise have supervisory responsibility over the activity being reviewed (including not being directly compensated based in whole or part on the revenues accruing for those activities). An independent SP must alternate review responsibility with another qualified person every two years or less.

11.7.2 Reviews To Be Conducted

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

Compliance will determine the areas to be supervised and incorporate them in a Producing Manager Supervisor's Checklist to be completed by the supervisor, retained in the supervisor's files, and reviewed on a periodic basis by Compliance and/or as part of an office inspection.

11.7.3 Heightened Supervision

[NASD Rule 3012(a)(2)(C)]

Under FINRA rules, a producing manager supervised by someone who is **NOT** independent is subject to "heightened supervision" under certain conditions. The requirement applies to a producing manager who generates 20% or more of the revenue of the business units supervised by the producing manager's supervisor over a rolling 12-month period.

Heightened supervision will be determined by the CCO and may include:

- unannounced supervisory reviews
- increased number of reviews during a specified period
- multiple reviewers
- other reviews as appropriate

The CCO will determine the nature and scope of the heightened supervision and will notify the producing manager's supervisor, in writing, of the requirements.

11.8 Cross Reference To Other Supervisory Control Subjects

The purpose of this section is to identify SRO supervisory control rule subjects that do not appear in the chapter *SUPERVISORY SYSTEM, CONTROLS AND PROCEDURES* and that appear in other chapters of this manual.

Subject	CHAPTER	Section / Subsection(s)
Transmission of customer funds and securities to [NASD Rule	FINANCIAL AND OPERATIONS	Transmittals Of Customer Funds And Securities

3012(a)(2)(B)(a)(i): <ul style="list-style-type: none"> • Third parties • Outside entities (banks, investment companies, etc.) • Post office or c/o addresses • Customer by RRs 	PROCEDURES	
Customer changes of address [NASD Rule 3012(a)(2)(B)(a)(ii)]	ACCOUNTS	<ul style="list-style-type: none"> • Addresses On Customer Accounts • New Accounts - Post Office Addresses
Customer changes of address [NASD Rule 3012(a)(2)(B)(a)(ii)]	FINANCIAL AND OPERATIONS PROCEDURES	Customer Confirmations And Statements - Change Of Customer Addresses On Accounts
Confirming changes in customer investment objectives [34 Act Rule 17a-3(17)(i)(A); NASD Rule 3012(a)(2)(B)(a)(iii)]	ACCOUNTS	<ul style="list-style-type: none"> • New Accounts - Customer Account Information • Updating Account Information And Periodic Affirmation
Time and price discretion for orders [NASD Rules 2510 and 3110(c)(4)]	ORDERS	Time And Price Discretion
Account designation changes on orders [NASD Rule 3110(d)]	ORDERS	Account Designation And Cancels/Rebills
Holding customer mail	FINANCIAL AND OPERATIONS PROCEDURES	Customer Confirmations And Statements - Hold Mail Instructions
Office inspections	OFFICES	Office Inspections

12 OFFICES

12.1 Office Designations

[NASD Rule 3010; NASD Notice to Members 06-12, 05-67 and 05-66]

12.1.1 Offices Of Supervisory Jurisdiction (OSJ)

[NASD Rule 3010(g)(1)]

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

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

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

12.1.2 Branch Offices Assigned To OSJs

[NASD Rule 3010(g)(2)]

Each branch office that is not an OSJ will be assigned to the supervision of an OSJ. The designated supervisor is required to visit non-OSJ branch offices on a periodic basis and record the visit in a memorandum or other record to be retained by the designated supervisor for the branch location. All business transacted by non-OSJ branch offices must be processed through the supervising OSJ. The designated supervisor is responsible for supervision of the branch office's activities and maintaining files for complaints, correspondence, new accounts, option accounts, advertising, and transactions originating from the branch office.

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

12.1.3 Non-Branch Business Locations

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order Records• Daily Transaction Report• Customer Monthly Statements• Correspondence• Reg T records including margin calls, prepayment requests, etc.• Other various records reviewed by the Branch Manager for supervision
Frequency	<ul style="list-style-type: none">• Ongoing
Action	<ul style="list-style-type: none">• Conduct ongoing supervisory reviews• Visit the non-branch location at least quarterly or require the RR(s) to

	visit the OSJ at least quarterly <ul style="list-style-type: none"> • Complete the Branch Manager's Checklist and submit monthly to Compliance
Record	<ul style="list-style-type: none"> • Records as described in other sections of the Manual • Record of visits to non-branches and/or meetings with non-branch RRs

Locations used occasionally and exclusively for appointments from time to time between RRs and customers ("locations of convenience") and where SAMCO has no other tangible presence are not deemed "branch offices." This includes a bank location where SAMCO conducts no securities activities but RRs meet periodically with bank customers. RRs conducting business at such locations are required to provide each customer with the address and telephone number of the branch office or office of supervisory jurisdiction that supervises the RR.

Each non-branch business location will be assigned to a branch office or OSJ for supervision. This includes RRs who are assigned to a branch office but transact business at a separate location. These RRs are referred to as off-site RRs. The designated principal is required to visit non-branch business locations and off-site RRs on a periodic basis and record the visit in a memorandum or other record to be retained by the designated supervisor in a file for the location. Off-site RRs are required to process all business through the assigned branch office or OSJ. The designated supervisor is responsible for supervision of the non-branch office's activities and maintaining files for complaints, correspondence, new accounts, option accounts, advertising, and transactions originating from the office.

FINRA Notice To Members 98-38 should be considered part of this manual and consulted regarding supervisory obligations.

12.2 Supervision Of Producing Managers

[NASD Rule 3012]

The customer account activities of managers and other supervisors are subject to supervision. Procedures are included in the chapter *SUPERVISORY SYSTEM, PROCEDURES, AND CONTROLS* in the section *Supervision Of Producing Managers' Customer Account Activity*.

12.3 Primary Residence Offices

[NASD Rule 3010(g)(2)(A)]

On a case by case basis, an RR's request to conduct business from their primary residence may be considered provided that, at a minimum, the RR is currently employed by SAMCO and is in good standing with both SAMCO and supervising regulatory authorities. Compliance must approve any such arrangement.

RRs approved for working from their primary residences may do so as long as the residence is not held out to the public as a branch office, and that they adhere to all relevant policies and procedures of SAMCO. The following requirements must also be met:

- only one Firm RR may conduct business from the location (unless otherwise approved by Compliance)
- the RR is assigned to a designated branch office, and such office is reflected on all business cards, stationery, advertisements, and other communications to the public
- all electronic business communications (*i.e.*, e-mails, faxes) are transmitted through Firm systems

- all customer orders are entered through the designated branch office or, if approved, via a Firm-approved system
- all required branch records are maintained at the designated branch office location

12.4 Use Of Office Space By Others

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Requests for office-sharing arrangements involving outsiders
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review the potential arrangement to determine that it will be clear to the public which entity they are dealing with, considering the following: <ul style="list-style-type: none"> ○ Amount of customer traffic in the office ○ Physical separation ○ Clearance with the fidelity insurance carrier ○ Posting the name of each entity on the door to their working place ○ The entities' names are not listed under the same telephone number ○ SAMCO's phone number is not used on the letterhead, business cards, or on any advertising of the outside entity ○ Employees of each organization will wear a badge identifying their employer ○ Any other considerations • When space-sharing involves the dual employment of SAMCO personnel, include policies and procedures that clearly identify the duties/functions to be performed for SAMCO and the supervisory reporting lines
Record	<ul style="list-style-type: none"> • Record of review and considerations that allow or disallow the arrangement • Approval/disapproval of the arrangement • If dual employment is involved, policies and procedures to address duties and supervisory structure

Persons not affiliated with SAMCO are generally not permitted to conduct business or maintain offices on SAMCO premises. Office-sharing arrangements require the prior approval of Compliance.

12.5 Office Records

[SEC Securities Exchange Act of 1934 Rule 17a-3 and Rule 17a-4]

Each office is required to maintain or have access to certain records relating to the business conducted in the office. "Office," for records purposes, means any location where an associated person conducts business (not including a home office or the office of a customer that a RR visits regularly). "Conducting business" includes handling funds or securities or soliciting/accepting orders. Each office is required to designate someone who can explain the office records to regulators.

There are two aspects to records requirements: *retention* and *access*. Documents (paper or electronic) regarding SAMCO's business ("books and records") must be retained for periods of time specified by regulators. Where SAMCO's required books and records (such as order tickets, correspondence, etc.) are not retained at the office that created the records, there is a requirement

that the records must be produced within a reasonable period of time upon request from a regulator that visits the office.

This section describes both types of requirements. All questions regarding books and records should be referred to Compliance.

12.5.1 Retention Of Records At The Office

Offices are required to retain the following records:

- Order records (3 years, 2 recent years in an accessible location)
- Correspondence, incoming and outgoing (3 years, 2 recent years in an accessible location)
- Advertising (3 years, 2 recent years in an accessible location)
- Operations records including records of receipt/delivery of securities or funds (3 years, 2 recent years in an accessible location)
- Complaints (3 years, 2 recent years in an accessible location)

12.5.2 Forwarding Records To Home Office

The following records must be forwarded to home office for retention:

- New account records
- Advertising
- Copies of complaints

12.5.3 Access To Records

For records that are **not** maintained at the office location, the following records for the most recent two-year period will be produced at the office location promptly upon request of a regulator.

Regulators' requests should immediately be referred to Compliance for response. "Promptly" is generally understood to mean within 24 hours of the request.

- Order records (daily trade blotters, order tickets/memoranda, including for the firm account)
- Receipts/deliveries of securities, receipts/disbursements of cash, all other debits/credits
- Employee records (U4, employment application, compensation agreements, CRD numbers, internal identifying numbers, offices where RR conducts business)
- Customer account records
- Complaints
- Transactions, by RR, including compensation earned, commission schedules, method by which compensation is determined
- Communications with the public: originals of communications received, copies of communications sent; approval of outgoing communications including correspondence, retail communications, and (if applicable) institutional communications
- Record naming the person in the office who can explain records
- Record listing the person responsible for policies and procedures
- Compliance and supervisory manuals, including updates and revisions, until three years after termination of use of the manual

12.5.4 Regulatory Requests For Records

If a regulator (SEC, SRO, state regulator, or other) requests office records (in person or by another means), Compliance should be contacted immediately. SAMCO is obligated to provide prompt response to regulators' requests for information, therefore it is important the record retrieval process begin immediately or as soon as possible after receipt of the request.

12.6 Changes In Branch Offices

[FINRA By-Laws, Article IV Section 8]

Compliance is responsible for filing the uniform branch office registration form (Form BR) with the CRD to reflect changes to existing offices or to register new offices. Compliance retains records of branch registration filings.

In addition, Compliance will verify state requirements before an office is opened and will file any necessary application or documents with state authorities which may include the secretary of state, taxing authorities, and/or broker-dealer licensing authorities.

12.7 Closing Offices

When an office is closed (and not just moved to another location), the designated supervisor is responsible for the following:

- Obtain all access cards or keys from branch personnel and change locks until the office is completely closed.
- Secure computers and other office equipment and arrange for removal and preservation of data.
- Secure branch files and transfer to Compliance or another department for record preservation.
- Secure and transfer operations records to appropriate operations area.
- Notify customers affected by the closing.
- Finalize real estate issues such as leases.
- Maintain a record of the above closing procedures for the branch and notice to customers.

When an office is relocated, the supervisor must secure all property and records and oversee transfer to the new location. Keys/access cards for the closed office will be collected from employees and new keys/access cards issued for the new office location.

12.8 Office Inspections

[NASD Rule 3010(c)(1); NASD IM 3010-1; FINRA Regulatory Notice 11-54]

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Various reports/information regarding office activities
Frequency	<ul style="list-style-type: none"> • Annual - prepare inspection schedule • Per inspection schedule - conduct inspections
Action	<ul style="list-style-type: none"> • Maintain inspection program (and revise, as needed) • Prepare schedule • Assign inspections to qualified persons • Conduct inspections • Prepare reports and provide to management
Record	<ul style="list-style-type: none"> • Compliance retains the inspection program, schedule of inspections, reports, and back-up files to reports

12.8.1 Inspection Cycle

Offices will be inspected according to the following schedule:

- Branch offices - annually (includes OSJs and offices that supervise other offices)
- Non-supervisory branch offices - at minimum every 3 years

- Non-branch offices - periodically as established by Compliance based on factors which may include:
 - Types of business conducted in the office
 - Volume of business conducted
 - Proximity of supervisors
 - Number of RRs and other personnel
 - Customer complaints, disciplinary actions and/or regulatory actions filed against office personnel
 - Prior year's inspection report findings
 - Other factors determined by Compliance

Some inspections will be conducted on an unannounced basis. Inspections are also scheduled based on additional risk-based factors, as explained in the next section.

12.8.2 Risk-Based Reviews

In addition to the factors listed in the prior section, the following factors will be considered in scheduling and conducting inspections:

- Changes in overall business, products, people and practices
- Outside business activities of branch personnel
- Sales of structured products
- Sales of complex products including variable annuities
- Sales of private or otherwise unregistered offerings of any type

SAMCO will use the "Review Of Branch Office Risk Factors And Determination Of Inspection Cycle" to assist in determining review cycles.

12.8.3 Conducting Inspections

Inspections must be conducted by someone independent of supervisors of the office being inspected. Inspections may not be conducted by anyone who:

- supervises the office being inspected (branch manager, *etc.*);
- is another supervisor in that office; or,
- is directly or indirectly supervised by either of the prior-listed supervisors.

Inspections generally include the following:

- Assignment of inspection responsibilities to a qualified person
- Pre-inspection document/information review including review of prior report(s) for the office
- Scheduling a visit on either an announced or unannounced basis
- For branch offices, scheduling reviews at the supervising office to examine records of supervision
- During a physical inspection, reviewing records and interviewing personnel in accordance with the inspection program
- Preparing a draft report of findings
- Submitting the draft to the appropriate supervisor for comment and response
- Preparing a final report incorporating the supervisor's responses
- Submission of the final report to management

Compliance, at its discretion, initiates unscheduled inspections (when potential significant problems are identified, a change in office management warrants a special review, at the request of senior management, *etc.*).

12.8.4 Heightened Inspection Requirements

Responsibility	<ul style="list-style-type: none"> • Compliance
Resources	<ul style="list-style-type: none"> • Revenue/commission records
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Evaluate revenue to determine whether the office is subject to heightened inspection procedures • If it is, expand inspection program
Record	<ul style="list-style-type: none"> • Compliance retains records of revenue calculation and heightened inspection of offices subject to the requirement.

Heightened office inspection requirements apply if:

- the person conducting the inspection works in an office supervised by the branch manager's supervisor; and,
- the branch manager generates 20% or more of the revenue of the business units supervised by the branch manager's supervisor.

Heightened inspections may include:

- unannounced visits
- increased frequency of inspections
- broadened scope of the inspections
- review by other supervisors

12.8.5 Reports

[NASD Rule 3010(c)(2)]

Written reports of inspections will include:

- the name of the person who conducted the inspection and prepared the report
- the date(s) of the inspection
- areas reviewed which will include, at minimum (depending on types of business conducted in the office)
 - safeguarding customer funds and securities;
 - maintaining books and records;
 - supervising customer accounts serviced by the branch manager ("producing manager");
 - transmitting funds between customers and RRs and between customers and third parties;
 - validating customer address changes; and,
 - validating changes in customer account information.
- for any of the above areas **not** included in the report, an explanation of why they were not included (*i.e.*, the office does not accept funds or securities, the office does not have a producing manager, *etc.*).
- observations and exceptions regarding compliance with policies and procedures
- the office supervisor's response regarding exceptions and corrective action

Final reports will be distributed to senior management and the audit committee, if a committee has been appointed.

12.9 Display Of Certificates

[SIPC By-Laws, Article 11 Section 4(b)]

Branch offices are required to display certificates on their premises, including:

- SIPC symbol

12.10 Availability Of Rules

Each office that deals with public customers will maintain copies of rules for regulators where SAMCO is a member. Where Internet access is available, this requirement is satisfied by providing access to the rules published on the regulators' web sites.

13 CORPORATE FIXED INCOME SALES AND TRADING

13.1 Fair Prices

[NASD Rule 2440]

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.

13.2 Best Execution

[FINRA Rule 5310.03; SIFMA Best Execution Guidelines for Fixed-Income Securities:
<http://www.sifma.org/issues/item.aspx?id=21333>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Technology, as available• Regulators' reports, if available
Frequency	<ul style="list-style-type: none">• Daily• Weekly• Quarterly
Action	<ul style="list-style-type: none">• Review transactions to identify:<ul style="list-style-type: none">○ Outlying prices away from executions in the same or similar securities in reasonable proximity (consider changing market conditions)○ Cancels/rebills○ Unusual concentrations with particular customers○ Reasonableness of executions considering technology reports providing post-trade market transaction data, models for pricing (if available)
Record	<ul style="list-style-type: none">• Order records and/or reports with notations indicating review and action taken, if any

The concept of "best execution" is somewhat different in the fixed income market vs. the equity market. Fixed income securities have a more fragmented market with fewer participants, no central market, and limited published quotations. Traders still have an obligation to determine a fair price by considering the following factors when pricing a debt transaction.

- Accessibility of quotations (either dollar pricing or yield pricing). Quotations may be "indicative" quotes only, indicating a quote relevant for only a short time or interest in buying or selling a particular issue to solicit bids or offers
- The availability of pricing of recent sales in the same, similar, or benchmark securities (*i.e.*, TRACE for corporate bonds)
- Review of multiple market venues, if they are available
- Contact with other dealers
- The liquidity of the bonds
- Size of the transaction

- Internal capabilities to execute large blocks vs. smaller blocks that may not fill an order
- Reasonable mark-ups/mark-downs as discussed in the next section
- The customer's instructions and expectations

In the event that the supervisor determines that a trader has not met the best execution obligations in a particular transaction or transactions, the supervisor will notify the Chief Compliance Officer regarding the nature of the potential deficiencies and recommended follow up actions.

On a quarterly basis the CCO will review the trade blotter for fixed income securities for any indications of instances where the Firm may have failed to achieve best execution. This review can be accomplished by sorting the blotter by CUSIP and looking for potential pricing anomalies for a particular security. The CCO will compare a sample of executions from the blotter to TRACE reported transactions and available pricing information from Bloomberg.

13.3 Mark-Ups And Mark-Downs

[NASD Rule 2440; NASD IM 2440-1 and 2440-2; FINRA Regulatory Notice 07-28]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Orders • Trading reports
Frequency	<ul style="list-style-type: none"> • Ongoing (Traders) • Spot-check (Compliance)
Action	<ul style="list-style-type: none"> • Traders: <ul style="list-style-type: none"> ○ Ensure mark-ups and mark-downs are within general SAMCO guidelines ○ For mark-ups and mark-downs that are outside guidelines, include a written justification on the order record • Compliance review mark-ups and mark-downs that exceed general SAMCO guidelines: <ul style="list-style-type: none"> ○ Review order records for written justification (e.g., yields on comparable securities) ○ Notify Trading Manager of missing justifications and request correction of the deficiency ○ Confer with Trading Manager regarding orders where justification does not seem warranted
Record	<ul style="list-style-type: none"> • Order records maintained by the Trading Dept. • Trading reports including initials of reviewer and review notes, if any, maintained by Compliance

FINRA has established a Mark-Up Policy for transactions between broker-dealers and customers in debt securities (excluding municipal securities). This section describes the requirements for determining whether a mark-up or mark-down is fair. Following is a summary of the interpretation's requirements.

- Mark-ups or mark-downs must be calculated from the prevailing market price of the security. The prevailing market price is commonly obtained from one of the following sources: (1) TRACE; (2) the dealer's contemporaneous cost; or (3) inter-dealer transactions.

- There are three events which, if any one occurs, may pre-empt the use of the BD's contemporaneous cost:
 - Interest rate change
 - Significant change in the credit quality of the debt security
 - News that has an effect on the value of the debt security
- Where there is no contemporaneous transaction and the three outside factors do not apply, pricing alternatives (in order of priority) include:
 - Hierarchy pricing factors including contemporaneous inter-dealer transactions; qualifying contemporaneous institutional account-dealer transactions; or qualifying contemporaneous quotations.
 - Pricing information from "similar" securities.
 - Pricing information derived from economic models.
- Transactions with qualified institutional buyers (QIBs) are exempt from the requirements of the rule and interpretation.

13.3.1 Contemporaneous Cost (Or Sale Proceeds) And Overriding Events

The Mark-Up Policy states that the "prevailing price" is the price to be used when determining a fair mark-up or mark-down. For debt securities, the broker-dealer's contemporaneous cost is considered the prevailing price. Contemporaneous cost is the price at which the BD buys or sells the security in close proximity to the transaction subject to the Mark-Up Policy.

FINRA recognizes that contemporaneous cost (proceeds) may not be indicative of the prevailing market price if one of the following three events occurs:

- interest rates changed after the BD's contemporaneous transaction to a degree that such change would reasonably cause a change in debt securities pricing;
- the credit quality of the debt security changed significantly after the BD's contemporaneous transaction; or
- news was issued or otherwise distributed and known to the marketplace that had an effect on the perceived value of the debt security after the BD's contemporaneous transaction.

When the BD has no contemporaneous transaction and none of the three above events apply, there are other pricing alternatives which are described in the following sections. The alternatives must be applied in the order described in this section (i.e., the BD has the obligation to attempt to use the first alternative [hierarchy pricing] before it uses the second alternative ["similar" securities]).

13.3.2 Hierarchy Pricing Factors

Three factors must be considered, in the order listed, to price the security on a hierarchy basis:

- contemporaneous inter-dealer transactions in the same security;
- qualifying contemporaneous institutional account-dealer trades in the same security; or
- qualifying contemporaneous quotations.

Each hierarchy pricing factor must be considered, in order, before proceeding to any consideration of the next factor ("similar" securities).

13.3.3 Pricing Information From Similar Securities

Pricing may be based on similar securities; the Interpretation includes the following possible considerations (which are in no particular order): credit quality of both securities, ratings, collateralization, spreads (over U.S. Treasury securities of similar duration) at which the securities usually traded, general structural similarities (calls, maturity, embedded options), size of the issue, float, recent turnover, estimate of market yield, and transferability or restrictions on the securities. A "similar" security should be sufficiently equivalent to the subject security that it would serve as a reasonably fungible alternative investment.

13.3.4 Pricing Information From Economic Models

Where none of the prior alternatives are available for determining the security's price, an economic model may be used. The model must take into account measures such as credit quality, interest rates, industry sector, time to maturity, call provisions and any other embedded option, coupon rate and face value, and all applicable pricing terms and conventions (e.g., coupon frequency and accrual methods).

13.3.5 Qualified Institutional Buyer (QIB) Exemption

[SEC Securities Act of 1933 Rule 144A; NASD IM 2440-2]

Transactions with institutional customers that qualify as QIBs are not subject to the Mark-Up Policy. All three of the following elements must be satisfied to apply the exemption:

- The customer is a QIB as defined in Rule 144A under the Securities Act;
- the security the QIB wishes to buy or sell is a non-investment grade debt security as defined for purposes of IM-2440-2; and
- a determination that after considering factors in IM-2310-3 (institutional suitability factors), the QIB has the capacity to independently evaluate the investment risk and is exercising independent judgment in deciding whether to enter into the transaction.

13.4 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 SAMCO
- the amount of any other compensation received by SAMCO in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

13.5 Crossing OTC Bonds

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Available reports
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review crossed bond orders for pricing documentation• Take corrective action if pricing is not documented or appears to be incorrect by consulting with the trader, correcting the price, or other appropriate action
Record	<ul style="list-style-type: none">• Reviews of transactions including corrective action, if appropriate

When crossing OTC bonds, the following must be considered:

- Crossing transactions must represent a change in ownership, *i.e.*, bonds may not be crossed between accounts for the same beneficial owner ("wash transaction").
- Determining a fair crossing price involves one or more of the following, **which must be documented on the order record**:

- The price relates to the current quoted market price for the bonds. Indicate where they are quoted and the quote at the time bonds are crossed.
- The price is determined from a recent transaction in the security (indicate when and where the transaction took place).
- The price relates to a recent transaction in a similar bond (maturity, rating, coupon). Indicate the related transaction including description of the bond, when the transaction took place, and the price.
- Other documentation for determining a fair price to cross the bonds.

13.6 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account. Errors in customer accounts are documented on the Cancel and Rebill/Error Report form which requires a designated principal's approval.

13.7 Cancels And Rebills

[FINRA Rule 4515]

Cancellations and rebills in customer accounts are documented on the Cancel and Rebill/Error Report form which requires a designated supervisor's signature.

13.8 Extended Settlements; Delayed Deliveries

[FINRA Rule 11320]

Extended settlements or delayed deliveries are transactions that should be reviewed by the designated trading supervisor. Variances from normal settlement or delivery should be available only to those customers where the supervisor is reasonably confident regarding the customer's ability and willingness to pay or deliver securities on a timely basis.

Any pattern of extended settlements or delayed deliveries with a particular RR or client could indicate a credit problem, potential unauthorized trading or other improper activity and should be investigated.

13.9 Market Access

[SEC Securities Exchange Act of 1934 Rule 15c3-5; SEC Small Entity Compliance Guide: <http://www.sec.gov/rules/final/2010/34-63241-secg.htm>; NASDAQ Rule 4611(d)]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Order entry systems • Orders
Frequency	<ul style="list-style-type: none"> • Ongoing: oversight of systems • Daily, weekly, annually: provide reports of orders to supervisors for supervision • Annual: review of risk controls and CEO certification
Action	<ul style="list-style-type: none"> • Establish pre- and post-order entry controls • Provide reports to supervisors • Conduct review of risk controls • Obtain CEO certification
Record	<ul style="list-style-type: none"> • Reviews of reports (retained by supervisor's receiving reports)

	<ul style="list-style-type: none"> • Annual review • Annual certification
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SEC Rule 15c3-5 requires broker-dealers (BDs) with market access, including BDs that provide a customer or any other person with market access through use of the BD's market participant identifier or otherwise, to establish appropriate risk management controls and supervisory systems. These requirements are designed to limit the financial exposure of a BD that could arise as a result of market access, and to ensure compliance with all regulatory requirements that apply to providing market access.

The Rule applies to BDs with market access to trading securities by virtue of being an exchange member, an ATS subscriber, or an ATS operator with non-broker-dealer subscribers. It applies to security-based swaps if they become traded on an exchange and to BDs engaged in proprietary trading.

The Rule prohibits "naked" or "unfiltered" sponsored market access for third parties accessing markets through the BD.

13.9.1 Definitions

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

Regulatory requirements: all federal securities laws, rules and regulations, and rules of self-regulatory organizations, that are applicable in connection with market access.

Sponsored Access System: The practice by a member firm ("Sponsoring Member") of providing access to a market to another person, firm or customer ("Sponsored Participant").

13.9.2 Risk Management Controls

The risk management controls must be under the direct and exclusive control of the BD with market access, with limited exceptions specified in the Rule that permit reasonable allocation of certain controls and procedures to another registered BD that, based on its position in the transaction and relationship to the ultimate customer, can more effectively implement them. There is a limited exception for BDs that provides outbound routing services to an exchange or ATS for the sole purpose of accessing other trading centers with protected quotations on behalf of the exchange or ATS to comply with Reg NMS Rule 611 or the Options Linkage Plan for listed options. Routing brokers still must comply with preventing entry of erroneous orders.

SAMCO is responsible for establishing and maintaining risk controls for market access, whether for its own access or for access provided to a third party.

13.9.2.1 Financial Controls

The CFO is responsible for establishing financial controls to ensure the financial safety of SAMCO from undue exposure and errors when orders are entered. These limits are established in conjunction with senior management and committees (if they exist) with responsibility for oversight of specified areas of SAMCO. Risk exposure is also considered as part of the new product review process described in the chapter *FINANCIAL AND OPERATIONS PROCEDURES* and as part of SAMCO's risk management controls.

Financial risk controls may include the following:

- trading limits or the Firm or its customers
- inventory limits

- commitments to and trading in financial instruments that pose a potential risk to SAMCO
- limits to credit extended to certain customers or on behalf of a trading desk

13.9.2.2 Order Entry Controls

SAMCO (or its clearing firm) has established controls to prevent the entry of orders that:

- exceed appropriate pre-set credit or capital thresholds
- exceed a customer's trading limit
- appear to be erroneous including duplication of orders
- do not include all required conditions of the order (price, quantity, security, *etc.*)
- the customer is restricted from trading
- is a short sale without the required verification the security may be borrowed
- other controls if determined necessary

13.9.2.3 Post Order-Entry Controls

SAMCO (or its clearing firm) has established post-entry order controls that:

- identify trades or patterns of trading that may violate firm or regulatory rules or policy
- other controls if determined necessary

13.9.2.4 Authorized Access

Only authorized employees have market access. Employees are designated by the trading manager and are assigned passwords which are periodically changed. Passwords are de-activated when an employee terminates or is transferred to a position that does not have authorized access.

13.9.2.5 Post-Trade Execution Reports

Reports are provided to designated supervisors through printed or electronic reports that include all transactions or filtered reports to identify potential violations. These are available on a daily, weekly, monthly, or other appropriate interval for the review to be conducted.

13.9.2.6 Annual Review

On an annual basis SAMCO's systems and controls and its written procedures are reviewed. Refer to the chapter *SUPERVISORY SYSTEM, PROCEDURES AND CONTROLS*. This includes review of the risk management controls for oversight of market access.

13.9.2.7 Annual Certification

The CEO's annual certification regarding SAMCO's supervisory system and controls includes a certification that the risk management controls and supervisory procedures comply with Rule 15c3-5 and that the regular review has been conducted.

13.9.3 Sponsored Access

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance
Resources	<ul style="list-style-type: none"> • Requests for sponsored access
Frequency	<ul style="list-style-type: none"> • As required: execute and file agreements • Initially upon sponsoring access: provide training to authorized persons • Ongoing: monitor transactions • Quarterly: verify access of participants • Annual: confirm physical security of equipment

<p style="text-align: center;">Action</p>	<ul style="list-style-type: none"> • Conduct review of potential sponsored participant • Approve or disapprove participation • Determine limitations on participant's activities (for example, pre-set credit thresholds; price, size or value parameters for orders) • Execute with Sponsored Participant an agreement that outlines conditions for access • Obtain list of persons authorized to enter orders on participant's behalf • Provide training to authorized persons • Verify that access is provided only to authorized sponsored participants • Monitor transactions entered by the sponsored participant to determine compliance with regulators' rules and requirements <ul style="list-style-type: none"> ○ Avoidance of errors ○ Orders represent bona fide trading interest ○ Trading within limitations established by SAMCO • When problems are identified: <ul style="list-style-type: none"> ○ Confer with participant ○ Provide additional training, if appropriate ○ Terminate agreement, if necessary • Confirm the physical security of any equipment on the participant's premises by annual certification or examination by a firm-authorized person
<p style="text-align: center;">Record</p>	<ul style="list-style-type: none"> • Records of participant due diligence review prior to approval • Limitations established on participant's activities • Copies of agreement with Sponsored Participant • List of persons who will enter orders for the participant • Record of training authorized persons • Monitoring of sponsored participant activity, notes of action taken • Record of quarterly verification of access only by sponsored participants • Record of confirmation of the physical security of equipment provided to the sponsored participant (annual certification or examination)

SAMCO may act as a Sponsoring Member that gives access on an agency basis to another firm or customer ("Sponsored Participant") to execute orders on exchanges where SAMCO is a member. Sponsored access is subject to the risk management controls established for SAMCO's access to markets. Where the Sponsored Participant is a registered broker-dealer, some supervisory responsibilities may be allocated to the Sponsored Participant under the written agreement.

13.9.3.1 Approval Of Sponsored Access

Proposed sponsored access will be reviewed by Compliance which will conduct a due diligence review of the firm or customer that is the potential sponsored participant. Compliance will also establish any credit or trading limits; these limits will be communicated to the participant.

13.9.3.2 Limits And Controls

SAMCO may establish pre-set credit thresholds for participants and may set price, size, or value parameters that would reject orders that exceed the established parameters. User Agreement must be signed by SAMCO and the participant and filed with the exchange.

Sponsored Participants are subject to pre-entry order limits and post-entry controls applicable to SAMCO and may be subject to more stringent limits and controls. The designated supervisor will establish the limits and controls for each participant and notify system personnel to establish those controls in the system.

13.10 Traders' Personal Accounts

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Confirmations Statements
Frequency	<ul style="list-style-type: none"> Ongoing
Action	<ul style="list-style-type: none"> Review trader's personal transactions to identify: <ul style="list-style-type: none"> trades in securities in which the trader makes a market trades that were not approved by the Manager prior to entry Take corrective action for exceptions which may include conferring with the trader; canceling transactions; issuing a formal reprimand; or other appropriate action
Record	<ul style="list-style-type: none"> Trading Department files for traders' transactions

- Traders may not effect personal transactions in corporate fixed income securities from a Firm inventory account. Purchases or sales must be made on an agency basis with other dealers.

13.11 TRACE

[FINRA Rule 6700 series; FINRA Regulatory Notice 11-53 and 11-20; FINRA Trade Reporting Notice December 21, 2011 (FAQs); FINRA Trade Reporting Notice May 10, 2011 (Reporting Asset-Backed Securities); FINRA TRACE web site: <http://www.finra.org/RegulatorySystems/TRACE/index.htm>]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> TRACE-eligible transactions TRACE Quality of Markets Report Card TRACE Entitlement & Contact Report
Frequency	<ul style="list-style-type: none"> Monthly
Action	<ul style="list-style-type: none"> Review Report Card to determine whether trades are properly reported Where exceptions are noted, take corrective action which may include: <ul style="list-style-type: none"> Conferring with person responsible for input Additional training when necessary If a third party is used to report, contact with appropriate person to obtain assurances regarding corrective action Review the Contact Report to confirm only authorized persons are accessing TRACE
Record	<ul style="list-style-type: none"> Copies of TRACE Quality of Markets Report Card with note of action taken, reviewer's initials, and date reviewed Copies of Trace Entitlement & Contact Report with reviewer's initials and date reviewed and action taken, if appropriate

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FINRA requires the reporting of OTC transactions in eligible corporate debt securities to its Trade Reporting and Compliance Engine (TRACE). This section summarizes TRACE reporting requirements. FINRA rules should be consulted for more detailed information, including the information to be reported and timeframes for reporting.

13.11.1 TRACE Eligible Securities And Reportable Transactions

[FINRA Rule 6710; FINRA Regulatory Notice 08-75]

"TRACE-eligible securities" include securities that are:

- U.S. dollar denominated debt securities issued by a U.S. or foreign private issuer (and, if a restricted security, sold under Rule 144A);
- A debt security that is U.S. dollar-denominated and issued or guaranteed by an Agency or a Government-Sponsored Enterprise (as defined in Rule 6710);
- FDIC-guaranteed debt securities under the federal "Temporary Liquidity Guarantee Program;" **and**
- Asset- and mortgage-backed securities (as broadly defined in FINRA Rule 6710(a) including CMOs, CDOs, CBOs, and other asset-backed securities) [FINRA Rule 6730(a)(3)].

TRACE eligible securities include unlisted convertible debt, unlisted equity-linked notes and similar securities (those that are listed on a national securities exchange must be reported to the appropriate equity trade reporting facility). A "foreign private issuer" is a foreign issuer that is not eligible to use the SEC's Schedule B for registering a debt offering in the U.S.

Reporting obligations include primary market transactions in TRACE eligible securities.

13.11.1.1 Securities Excluded

"TRACE-eligible securities" (governed by definitions within the Rule) exclude:

- debt issued by a foreign sovereign
- a U.S. Treasury Security (defined as issued by the U.S. Department of Treasury to fund the operations of the federal government or to retire such outstanding securities)
- money market instruments

13.11.2 Transaction Reporting

[FINRA Rule 6730]

SAMCO is obligated to report to TRACE any transactions in the securities subject to TRACE requirements. Refer to FINRA Rule 6730 for details of timeframes for reporting.

13.11.2.1 Who Reports

When the buyer and seller are both FINRA members, both members must report to TRACE. For transactions between a member and a non-member, including a customer, the member must report.

13.11.2.2 Transactions Exempt From Reporting

[FINRA Rule 6730(e)]

The following transactions are not reportable:

- Transactions in TRACE-Eligible Securities that are listed on a national securities exchange, when such transactions are executed on and reported to the exchange and the transaction information is disseminated publicly.
- Transactions where the buyer and the seller have agreed to trade at a price substantially unrelated to the current market for the TRACE-Eligible Security (e.g., to allow the seller to make a gift).
- Provided that a data sharing agreement between FINRA and NYSE related to transactions covered by this Rule remains in effect, transactions in TRACE-Eligible Securities that are executed on a facility of NYSE in accordance with NYSE Rules 1400, 1401 and 86 and reported to NYSE in accordance with NYSE's applicable trade reporting rules and disseminated publicly by NYSE.
- Transactions resulting from the exercise or settlement of an option or a similar instrument, or the termination or settlement of a credit default swap, other type of swap, or a similar instrument.
- Transfers of securities made pursuant to an asset purchase agreement (APA) that is subject to the jurisdiction and approval of a court of competent jurisdiction in insolvency matters, provided that the purchase price under the APA is not based on, and cannot be adjusted to reflect, the current market prices of the securities on or following the effective date of the APA.
- Transfers of TRACE eligible securities to create or redeem instruments such as ETFs.
- A sale from an issuer to an underwriter(s) or initial purchaser(s) as part of an offering, except a sale of an Agency Pass-Through Mortgage-Backed Security from a securitizer [Rule 6710(c)].

13.11.2.3 Underwriter Obligation To Obtain CUSIP And Provide Notice

[FINRA Rule 6760]

The managing underwriter or group of underwriters of a distribution or offering (excluding a secondary distribution or offering) of a TRACE-eligible debt security must obtain the CUSIP number and provide information to the TRACE Operations Center. The information must be provided by facsimile or e-mail.

13.11.3 System Outages

[FINRA Regulatory and Compliance Alert Winter 2000; FINRA guidance on system outages:
<http://www.finra.org/Industry/Regulation/Guidance/MemberAlerts/2002/P002752>]

System outages involving fixed income transactions and TRACE reporting will be reported to FINRA by e-mail to bondreporting@finra.org. The trading supervisor is responsible for determining whether to report outages and will retain copies of e-mail communications sent to FINRA.

13.11.3.1 Information To Be Reported

Information that will be reported includes the following:

- the date(s) the system problem occurred;
- the specific systems that were affected (e.g., internal systems, third party vendor system);
- the exact nature of the problem (e.g., complete outage, slow transmission times);
- the time the problem began;
- the time the problem was first detected;
- the time the problem was resolved and a brief description of the resolution;
- the level of activity impacted (e.g., the approximate number of trades not reported) and a description of how the impact will be addressed (e.g., trade reports to be submitted on an "as of" basis the next business day);
- contact name and telephone number; and,
- any additional information deemed relevant.

13.11.4 Procedures For Clock Synchronization

[FINRA Rule 7430]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Clock Synchronization Log
Frequency	<ul style="list-style-type: none">• Weekly
Action	<ul style="list-style-type: none">• Review Log• Take correction action for failure to synchronize clocks which may include: repair or replacement of clocks (for mechanical failure); additional training of personnel; or other appropriate action in consultation with Compliance.
Record	<ul style="list-style-type: none">• Clock Synchronization Log is retained in a department file.

Under FINRA rules, all time clocks (computer system or mechanical) used for recording date and time of orders must be synchronized to ensure the accuracy of recorded time. The following procedures are to be followed to synchronize clocks:

- Traders are responsible for synchronizing their own clocks, each trading day.
- Clocks that have not been checked according to these procedures must not be used for recording order information.
- All clocks will be synchronized with the National Institute of Standards and Technology (NIST) system clock **each business day**:
 - prior to the opening; and
 - at least once during the trading day (target time: 12:00 p.m. Eastern Time).
- Traders must record clock synchronization on the Clock Synchronization Log and provide the Log to the trading manager weekly.
- Failure to conduct required synchronization may result in disciplinary action.
- The Trading Manager is responsible for reviewing and retaining the Logs.

13.11.4.1 Independent Contractors

If an independent contractor immediately transmits orders to the trading department, either electronically or manually, the independent contractor is not required to maintain a separate synchronized clock. If there is any delay in transmitting the order, however, the contractor must maintain a synchronized clock.

13.12 Prohibited Activities

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Trading reports• Observation of traders' activities• Monthly trader reviews
Frequency	<ul style="list-style-type: none">• Ongoing
Action	<ul style="list-style-type: none">• Take corrective action depending on the nature of the prohibited

	activity
Record	<ul style="list-style-type: none"> Trading Department files and/or the Trading Manager's Log

13.12.1 Inside Information

[SEC Securities Exchange Act of 1934 Rule 10b-5; FINRA Notice to Members 89-15; Insider Trading and Securities Fraud Enforcement Act of 1988]

Traders are prohibited from acting on, passing on, or discussing any inside information regarding any fixed income security issues, including any material non-public information regarding, for example, a credit-rating change, default or advance refunding. Any knowledge of such information must be brought to the attention of the designated supervisor and Compliance. No SAMCO proprietary account or employee account may enter a transaction in a security based on material non-public information about that security.

13.12.2 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.*).

13.12.3 Market Manipulation

[SEC Securities Exchange Act of 1934 Rule 10b-3; FINRA Rule 2020]

No purchase or sales order shall be entered or executed 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. No purchase or sale order shall be entered or executed with the intent to "corner" a market or create a "squeeze" in a security.

13.12.4 Frontrunning

[NASD IM 2110-3]

No SAMCO 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.

13.12.5 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. Legitimate repurchase or "repo" transactions, usually entered into as financing transactions, are not included in this prohibition if they are not entered for a manipulative purpose.

13.12.6 Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

13.12.7 Adjusted Trading

[FINRA Regulatory and Compliance Alert Fall 1993]

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 re-selling 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

All transactions must be executed at prices reasonably related to current market prices and all books and records of SAMCO must show an accurate price for securities purchased or sold.

13.13 Review Of Transactions

[NASD Rule 3010]

The designated supervisor is responsible for daily review of transactions executed in the fixed income trading area(s) to identify transactions or patterns that may violate regulatory requirements or SAMCO policies. Particular attention should be given to cancellations and rebills, error accounts, extended settlements and any transaction that would constitute a prohibited activity. The supervisor should investigate any questionable transaction and inform Compliance as appropriate.

13.14 High Yield Debt Securities

[FINRA Notice to Members 04-30]

13.14.1 Suitability

[FINRA Rule 2111]

High yield debt securities generally involve a higher degree of risk, including the following possible risk factors:

- The bond may default resulting in loss of investment.
- Markets for such bonds may be relatively illiquid, impacting the investor's ability to sell and the price of the bond.
- In a low-interest, low-yield environment, there may be a compression of risk premium resulting from investors bidding up prices and driving down yields while default rates remain high.

RRs must consider these factors (and other factors that may exist) before recommending such securities to customers. Risks must also be communicated to the investor. Supervisors reviewing daily transactions should consider the suitability of recommended purchases of high yield debt securities in relation to the customer's investment objectives and other investments.

13.14.2 Underwriting And Investment Banking

The procedures outlined in the chapters *CORPORATE SECURITIES UNDERWRITING* and *INVESTMENT BANKING* are to be followed for the underwriting of high yield debt securities, as well as policies included in the chapter *INSIDER TRADING* and particularly procedures regarding information barriers.

13.14.3 Research

The procedures outlined in the chapter *RESEARCH* apply to research on high yield debt securities.

13.14.4 Creditors' Committee

Any employee that anticipates serving on the creditors' committee should notify Compliance prior to accepting the position. The following will be considered in determining whether the employee should serve on the committee:

- Whether access to inside information would unduly restrict SAMCO from issuing research or trading the issuer's securities
- Whether adequate information barrier procedures are in place to permit unrestricted activities in other business areas of SAMCO while the employee serves on the creditors' committee
- Whether disclosure of the employee's role should be included in footnotes on any research reports on the issuer's securities

14 INVESTMENT BANKING

14.1 Introduction

These policies and procedures outline requirements for SAMCO's Investment Banking ("IB") activities. Questions regarding the policies and procedures outlined in this chapter should be directed to Compliance.

14.2 Information Barrier and Confidentiality Issues

14.2.1 Information Barrier Procedures

In order to control the flow of confidential and material, non-public information, SAMCO has created Information Barriers to separate the public side employees (e.g., sales, trading and research) from private side employees (e.g., advisory and investment banking).

For more detailed information regarding SAMCO's Insider Trading and Information Barriers policies, and the Watch and Restricted Lists policies, refer to the chapter *INSIDER TRADING*.

14.2.2 Origination Process And Information Sharing

Discussions with senior management (i.e. the Chairman and the President) provide a venue for IB and origination personnel to meet and discuss significant Firm opportunities. To that end, open dialogue and communication is crucial, however Compliance guidelines must accompany this open forum in order to address: potential conflict situations; the flow of material, non-public information ("MNPI"); and compliance with SAMCO's information barrier policy of sharing information only with those that have a "need to know." Separate requirements apply to dealings between IB and Research, outlined in a later section of this Policy titled *"Interaction between Research and Investment Banking."* The following compliance guidelines address information sharing issues other than interaction with Research personnel.

1. As conversations with Senior Management will cross industry and product lines, participants will be privy to information that they previously have not been privy to. Senior Origination participants will be held to the same higher standard as Senior Management and above-the-barrier employees.

Participants should always use good judgment when discussing potential transactions or situations and should limit the content and context of the information they present. In the event that MNPI is shared during the meeting, the information should be limited only to essential information (i.e., "need to know").

2. Unlike other forums, project code names are not required. However, if information does not need to be shared or if assistance can be gained by having conversations with colleagues in a separate, smaller venue, this route should be taken.

3. Identifying and discussing common relationships and communication strategies are permissible.

4. Participants should not hand out any materials during discussions with Senior Management, except for senior management and board of director lists. To the extent that contact lists are handed out or emails are distributed, the documents should:

- have a cover sheet (as applicable),
- be clearly marked Confidential,
- use a project code name in the header or reference field (for emails), and
- be collected and shredded after management discussions by the person handing the material out.

5. At a minimum the use of project code names and limited details should be used as soon as possible, *e.g.*, after the idea comes together and the deal team proceeds with the pitch. Generally, the group should not be updated until the transaction is announced or dead.

6. All MNPI must remain confidential outside the meeting and should be used only for the business purpose it was communicated. Sharing information outside the group should be limited to those with a "need to know."

7. When communicating MNPI outside of Senior Management discussions, individuals should utilize project code names in written and in oral communications when appropriate, *i.e.*, public places, meetings outside the group, e-mail, and broadly disseminated correspondence.

8. Participants should only give their proxy information to other Senior Origination participants in the event they are unable to attend. Participants may not ask members of their industry or origination group to attend as their proxy. Given the above-the-barrier nature of the conversation, it is inappropriate for anyone other than the designated participants to participate in these discussions with Senior Management.

14.3 Restricted And Watch Lists

Compliance maintains and monitors a "Restricted List" and a "Watch List" as described in *INSIDER TRADING*. Investment Bankers have an obligation to notify Compliance of pending deals as outlined in the policy.

14.3.1 Watch List

The Watch List is a confidential list of companies and issuers of securities maintained by Compliance for the purpose of monitoring the possession of confidential or material, non-public information obtained by SAMCO during its normal course of business, usually when it has been retained to advise a customer regarding a transaction, to underwrite an offering, or to provide debt financing. The contents of the Watch List are highly confidential and access to the Watch List is limited to Compliance and persons granted access by Compliance. No person may discuss the contents of the Watch List or any of its information with anyone outside of the immediate deal team and senior management in the respective business unit, where appropriate, without permission of Compliance.

The Watch List is used to review the sales, trading and research activities of SAMCO and the personal trading activities of employees without restricting such activities. The Watch List helps to ensure the integrity of the Information Barrier and is used to support and monitor compliance of these policies and procedures. For these reasons, Compliance is authorized to break trades in proprietary or employee accounts, restrict trading and research, and prohibit other activities relating to securities or issuers included on the Watch List.

14.3.1.1 Additions To The Watch List

Notification

The Lead Banker is responsible for PROMPTLY informing Compliance when SAMCO is reasonably likely to be engaged by a customer or they obtain information that is substantially material to the customer and/or SAMCO. Examples include:

- M&A advisory or fairness opinion
- Underwriting or placement agent activities
- Acquisition finance involving public companies
- Conflict clearance when both the acquirer and target are customers
- Auctions
- Hostile situations

The Lead Banker is responsible for notifying Compliance prior to going to Senior Management when SAMCO is reasonably likely to be buy-side or sell-side advisor for a private or a public company,

financial or general advisor, advisor in a going-private transaction, to explore strategic alternatives, to place private equity, or to provide a fairness opinion.

Compliance will place the name of the issuer(s) involved on the Watch List (if that issuer is public) and conduct a Firm-wide review in an attempt to identify, manage and resolve potential conflicts of interest arising from SAMCO's participation.

At the time the Lead Banker reports a project for Watch List addition, the Banker should also communicate to Compliance the proposed deal team and a project code name to control the flow of information. The deal team should include employees representing a cross-section of business units and product expertise relevant to the transaction. Those "above the barrier" are not added to a deal team. Compliance will assist with resolving situations where limited resources are available to adequately staff multiple, competing deal teams.

The deal team is required to use the project code name in all communications relating to the transaction to ensure security.

14.3.1.2 Updates To The Watch List

The Lead Banker is responsible for informing Compliance of all material events regarding the transaction. Examples include:

- the approved additions and deletions of employees to and from deal teams
- timing and launching of transactions
- notification prior to a public announcement for an M&A transaction or rendering a fairness opinion
- notification after a shareholder vote is complete or a tender offer expires

14.3.1.3 Deletions From The Watch List

The Lead Banker who added the security or issuer to the Watch List is responsible for PROMPTLY informing Compliance when a security or issuer should be removed from the Watch List. Generally, the removal of a security or issuer from the Watch List is warranted when the information possessed by SAMCO is no longer deemed confidential, material or non-public in nature or when it has aged to the point where it is no longer relevant. Removal of a security or issuer from the Watch List is also warranted when the project has been abandoned or when the probability of a project occurring is no longer great enough to continue to monitor the sales, trading and research activities of SAMCO and the activities of employee accounts.

14.3.2 Restricted List

In order to comply with securities laws, to avoid the appearance of impropriety, and to supplement the Information Barrier, SAMCO maintains a Restricted List. The Restricted List is an internal-use-only list of companies and issuers of securities in which certain restrictions apply in handling customer orders, trading for proprietary accounts, trading for employee and employee-related accounts, and other activities.

The Restricted List is generated, maintained and distributed by Compliance for the exclusive use of SAMCO, and its contents are for internal use only. Distribution or sharing of the list outside SAMCO is prohibited. It is communicated through SAMCO's intranet and is located on the Compliance website. The Restricted List identifies the type of restriction applicable to the security. Restrictions may include legal restrictions (Reg M, 14e-5, etc.) and policy restrictions (no proprietary trades until closing of an M&A transaction in which SAMCO is serving as a financial advisor) and are assessed and applied by Compliance as required.

14.3.2.1 Prohibitions And Effects Of The Restricted List

The Restricted List is most often used in the following situations to restrict the appropriate sales, trading and research activities in the applicable securities of an IB customer. Compliance will determine when one of the following conditions requires addition of a security to the Restricted List.

- When SAMCO has been retained as a financial advisor in a material public transaction
- When SAMCO is a participant in a publicly announced offering of securities
- When SAMCO, in some cases, is a provider of debt financing
- In situations where a research analyst, salesperson, or trader is brought over-the-wall
- Prior to the initiation of Equity research coverage with a rating other than hold/market perform
- Prior to dissemination of an equity research report with a material change
- When appropriate, securities of an issuer that is on the opposite side of a material, public transaction with SAMCO's customer

The Restricted List generally will not indicate why a particular security or issuer is restricted but will identify what activities are restricted and, conversely, permitted.

14.4 Investment Banker Personal Investments

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests from Bankers to enter personal transactions
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Check for potential conflicts • Approve or disapprove the request
Record	<ul style="list-style-type: none"> • Records of transaction requests/approval or disapproval

Because investment bankers (Bankers) have access to MNPI, they are subject to specific requirements affecting their personal investments to avoid conflicts of interest and rule violations. Failure to comply with this Policy may result in disciplinary actions up to and including termination of employment.

Bankers are prohibited from trading in securities:

- that they cover.
- for one (1) reporting period after a publicly-announced deal is finalized (but under no circumstances for any period where there is knowledge of material, non-public information).
- in industries where the Banker is aligned.
- where the Banker has knowledge of material, non-public information (this includes a prohibition against passing on such information to others).
- when the Banker is part of a deal team (includes others supporting the deal team and having knowledge of the deal). Includes knowledge of current or proposed deals.
- that are securities of an issuer that is a customer of the Banker.
- when aware of a proposed or pending follow-on offering.
- if currently involved in an underwriting or distribution of securities for the issuer.
- if previously involved in an underwriting or distribution of securities for the issuer, less than one reporting period has elapsed since the close of the underwriting.
- if aware of an ongoing relationship with the issuer/customer of the group you are working in.
- if aware of any current or potential transactions for the issuer as a result of access to financial or other systems, write rights (the ability to view or change information) to shared folders or applications or work on specific projects.
- if aware of any pitches or other communications planned with the issuer.

Pre-clearance of Banker Transactions

Bankers are required to pre-clear all personal transactions with their supervisor or his/her designee.

14.5 Licensing And Registration

[NASD Rule 1022 and 1032(i); NASD Regulatory Notice 09-41]

Bankers are required to have the Series 79 (Investment Banking Representative), and Series 63 (Uniform State Law) registrations. Supervisors are also required to complete the Series 24 General Securities Principal qualification. Employees of SAMCO may not solicit or otherwise engage in securities activities unless properly registered.

Registered personnel should be licensed in each state or jurisdiction (via Series 63) in which they will potentially conduct or solicit securities or investment banking business, unless a specific exemption applies as determined by Compliance.

14.6 Gifts And Entertainment

[FINRA Rule 2310(c)(2)(A), 2320(g)(4)(A), 2830(l)(5)(A) and 3220]

All employees are subject to SAMCO's policies on gifts and entertainment (*GENERAL EMPLOYEE POLICIES* chapter). Additional requirements that apply to Bankers are included in this section.

Deal Closing Events

Closing dinners or similar events recognizing a successful transaction are permissible, but are considered "entertainment" for the purpose of the applicable rules and are subject to SAMCO's entertainment policy.

Customer Restrictions On Gifts, Gratuities, And Entertainment

Many institutions adopt policies and procedures restricting the receipt of gifts, gratuities and entertaining. Firm personnel should conduct business development activities consistent with such policies and procedures to the extent such policies and procedures are effectively communicated to SAMCO.

Governmental agencies, municipalities, political subdivisions, federally insured deposit institutions, public utilities and bank holding companies typically have adopted policies and procedures or may be subject to state or federal laws and regulations that govern or limit receipt of gifts, gratuities and entertaining. Employees who cover any such customers or sectors should become familiar with the limitations imposed on the receipt of gifts, gratuities or entertainment by the customers themselves or laws applicable to the customer.

Gifts, Gratuities, And Entertainment Provided By Related People

It is not permissible to use spouses or other family members to evade the limitations of the rules. Any gift giving or entertaining of Firm customers by a spouse or other family members of an employee will be subject to the rules' limitations except to the extent (i) it solely relates to business development by the spouse's or other family member's employer, or (ii) it is permissible personal gift giving or entertainment to family members and personal friends as provided above and such gift or entertainment is not directly or indirectly paid for by SAMCO.

14.7 Participation In Compliance Meetings, Continuing Education, And Internal Audits/Reviews

[FINRA Rule 1250 and 3010(a)(7); NYSE Rule 345A]

Bankers are required to attend an annual compliance meeting, as required by FINRA, at which attendance is mandatory. The meeting provides a forum for education and guidance concerning legal or regulatory requirements and SAMCO's internal policies and procedures. Bankers are also subject to continuing education requirements. Registered personnel must complete Regulatory Element continuing education (required every three years) administered by regulators and Firm Element continuing education (required annually) administered by SAMCO. Compliance will notify employees when they are subject to the requirements; failure to complete the requirements within specified deadlines will result in the employee ceasing business activities until continuing education is satisfied.

IB is subject to reviews to detect and deter violations of applicable legal requirements and internal policies and procedures. Reviews typically include an assessment of the supervisory structure and internal policies and procedures. Bankers and supervisors are expected to cooperate and provide requested materials promptly to auditors.

14.8 Inquiries And Investigations

SAMCO is subject to supervisory oversight by multiple regulators. When a representative of any of these regulatory bodies contacts or requests information from an employee in IB, the employee must immediately contact Compliance. IB personnel should only communicate with regulators after consultation with Compliance and/or Legal.

14.9 Anti-Money Laundering (AML)

[FINRA Rule 3310]

Money laundering is a serious offense. SROs and federal securities and banking regulators have adopted stringent requirements to prevent and identify money laundering. Failure to comply with AML rules and regulations can result in significant charges and disciplinary action against SAMCO and/or its employees including charges of aiding and abetting money laundering and/or direct violation of AML laws. Any irregular or suspicious activity needs to be communicated to Compliance in a timely manner. Customer actions that should be viewed with caution include (but are not necessarily limited to) the following:

- using accounts to clear large sums of money without an apparent business purpose,
- conducting transactions with no discernible purpose,
- unnecessary use of an intermediary,
- regular payment of large sums, including wire transfers, that cannot be explained in the context of the customer's normal business,
- customers whose identity proves unusually difficult or expensive to verify,
- use of an address that is not the customer's permanent business address (for example, utilization of a home address for business correspondence),
- customers who purposefully avoid needed contact with Firm staff.

Each IB employee is responsible for being familiar with and complying with SAMCO's Anti-Money Laundering policies (see the chapter *ANTI-MONEY LAUNDERING (AML) PROGRAM*).

14.10 Communications

IB personnel are subject to SAMCO's communications policies (see the chapter *COMMUNICATIONS WITH THE PUBLIC*). Only Firm-sponsored communications networks and computers may be used for public communications. SAMCO is required to review and retain electronic communications. Electronic communications of any type should be considered the equivalent of written communications for purposes of creating a record of communications and should not be considered "conversations" or phone calls.

The following are included in the definition of communications with the public.

- Press Releases

- Single and Multiple Tombstone Advertisements
- Underwriting proposals to issuers
- Pitchbooks, marketing materials
- Research reports
- Recommendations List
- Offering sheets, fact sheets, or prospectus summaries
- Seminar texts
- Any material designed to be published in the public media
- Electronic communications such as e-mail and Bloomberg
- Communications via electronic networks such as instant messaging
- Facsimile ("Fax")

Communications that refer to SAMCO as a legal entity (in contracts, *etc.*), must state the full legal name of SAMCO and SAMCO's capacity in relation to the product or service offered. Any brand name may be used for marketing purposes, but may not be used in place of the legal entity. If a Firm affiliate is mentioned, the relationship between SAMCO and its affiliate must be clear. If an individual is named in a communication containing the names of SAMCO and an affiliate, the nature of the relationship of the individual with SAMCO should be clear.

14.10.1 Prohibited Communications Between Bankers And Customers

Except for Emerging Growth Companies ("EGCs") as discussed in a following section, prior to the effective date of a registered offering, communications mentioning the offering are prohibited including press releases, advertisements, and written communications. There should be **no** written communications (including email or fax) between Bankers and customers during the offering period. Private placements, by their nature, may not be announced prior to the transaction via press releases, advertisements and other media with broad distribution.

"Internal Use Only" material should not be disseminated externally and should be marked "Confidential" to prevent copying or forwarding.

14.10.2 Communication With Other Business Units

This section is intended only to provide general guidelines regarding appropriate levels of communication between IB and other Firm business units (other than Research which is discussed in the next section). **If there is any question related to whether or not something can be discussed or shared with other business units, contact Compliance.**

In the event that an employee believes that he or she may have inadvertently signaled that a confidential commitment or project is underway, or may have communicated confidential information about a project to a person not entitled to such information, the employee should immediately contact the senior business person on the transaction, who should then contact Compliance to determine what, if any, actions are advisable or necessary as a consequence of these communications.

14.10.3 "Public Side" Employees (Sales and Trading, etc.)

In the ordinary course of business, IB will possess non-public and potentially material information regarding corporations whose securities are traded by the public side of SAMCO, specifically Trading and Sales. It is the responsibility of Bankers to prevent such information from being shared with the public side of SAMCO. However, there exists a great deal of information received by IB that is public and of interest to employees on the public side of SAMCO. To facilitate the sharing of such information the following list of items is pre-approved by Compliance for distribution to the public side of SAMCO and is considered public information:

- Annual Reports, Press Releases, or other company prepared material which is made available to the public;
- Publicly registered documents, 10Ks, 10Qs, and Credit Agreements filed with the SEC;
- Information from publicly available industry media sources; and
- Publicly distributed research published by other institutions.

Written information **not pre-approved** in the above categories must be reviewed by Compliance before being distributed to the public side of SAMCO.

14.10.4 Interactions Between Research Analysts And Investment Bankers

[FINRA Rule 2711]

Communications and interaction between IB and Research are subject to restrictions by regulatory rules. No Research Analyst may be subject to the supervision or control of any member of SAMCO's IB groups. IB will have **no** input into company-specific coverage decisions made by the Equity Research Department (*i.e.*, whether or not to initiate or terminate coverage of a particular company).

No Banker may, directly or indirectly, retaliate against or threaten to retaliate against any research analyst employed by SAMCO 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 SAMCO's present or prospective IB relationship with the subject company of a research report.

There are some Emerging Growth Company exceptions regarding investment banker/research analyst interactions which are discussed in a section that follows.

14.10.4.1 Chaperoning

Most permissible communications between IB and Research require "chaperoning." Chaperoning means that any written or electronic communication between the research analyst and the Banker must be made through Compliance or in a transmission copied to Compliance. Oral communications must be made through Compliance acting as intermediary or in the presence of Compliance; provided that, Bankers may engage in un-chaperoned communications with research administrative personnel and research analysts may engage in un-chaperoned communications with IB administrative personnel only to the extent necessary to schedule an oral communication for which chaperoning is required.

Communications between IB and Research that require chaperoning are discussed below and include the following areas:

- published research
- market or industry trends, conditions, or developments
- the merits of a proposed transaction or a potential candidate for a transaction
- Firm conferences
- post-mandate due diligence: confirming the adequacy of disclosures

14.10.4.2 Permissible Communications

In an effort to further promote the independence and integrity of its research analysts, SAMCO has established mechanisms to separate Equity Research and IB personnel. As a general matter, equity research analysts and Bankers should not communicate (orally, electronically, or in writing) except as permitted below.

(1) Social Communications

Subject to the restrictions described below, communications between research analysts and Bankers that are not related to research or investment banking activities may take place without restriction.

(2) Communications Regarding Research

Subject to the requirements below, a research analyst may communicate with Bankers about *published research* in connection with a discussion of the analyst's views on market or industry trends,

conditions or developments or the merits of a proposed transaction or a potential candidate for a transaction. However, the analyst should not communicate with them about:

- The timing, valuation, substance, and/or basis of a recommendation, rating, price target, estimate, or other opinion in unpublished research;
- Changes to estimates, recommendations, ratings, price targets, or other opinions that the analyst is contemplating or that are pending; or
- The contemplated or pending addition (or deletion) of a company to (or from) any model portfolio or "focus" list.

Note: The Equity Research supervisor may, together with IB senior management, engage in strategic discussions about, and conduct annual and semi-annual reviews of, category-by-category coverage decisions, but not company specific coverage decisions. In addition, at such time as Research Management has made a final determination regarding research coverage of a particular category, the Equity Research supervisor may communicate to IB senior management in writing the applicable research coverage plan (including a list of initiations and terminations of coverage, a list of the names of research analysts assigned to cover particular companies and information on any final determination not to cover a particular company). Any such communication regarding the finally determined research coverage plan, including determinations regarding initiations and terminations of coverage, may only be initiated by the Equity Research supervisor and made to IB senior management. IB personnel are not permitted to contact the Equity Research supervisor or other Research personnel to inquire as to whether a determination has been made to provide coverage on a particular company.

Any communications between Research personnel and IB personnel regarding published research: (1) must be "chaperoned" by Compliance; (2) should not be made for the purpose of having a research analyst identify a specific investment banking transaction; and (3) should be consistent with the types of communications that an analyst might have with investing customers. In addition, Compliance must be notified in advance of any such communication.

(3) Communications Regarding Market Or Industry Trends, Conditions, Or Developments

A research analyst may communicate with Bankers about market or industry trends, conditions or developments. This includes discussions regarding the strategic direction of various industry or sector segments; market, economic, or other event-driven factors impacting industries, sectors, or companies (e.g., the impact of a company's press release on the company or industry); and other similar information.

Any such discussions that a research analyst has with Bankers, however: (1) must be "chaperoned" by Compliance; (2) must not be made for the purpose of having the research analyst identify a specific IB transaction; and (3) should be consistent with the types of communications that the analyst might have with investing customers.

(4) Communications Regarding The Merits Of A Proposed Transaction Or A Potential Candidate For A Transaction

A research analyst may communicate with Bankers about the merits of a proposed transaction or a potential candidate for a transaction, *provided that* such communications: (1) are pre-approved by the Equity Research supervisor *and* Compliance; (2) are "chaperoned" by Compliance; (3) are initiated by the Banker, and not the research analyst; and (4) are not for the purpose of having the analyst identify specific potential investment banking transactions.

To initiate a communication with a research analyst regarding a proposed transaction or a potential candidate, the Banker must make the request initially to the Equity Research supervisor who will, if appropriate, arrange for the analyst to "vet" the transaction or candidate. All further communications regarding the proposed transaction or candidate may occur only at the direction of the Equity Research supervisor and must be chaperoned by Compliance. The Banker **must not contact the analyst** until all required approvals have been obtained. **If the proposed discussion may involve**

the transmission of material, nonpublic information, SAMCO's procedures for crossing "information barriers" as set forth in the *INSIDER TRADING* chapter must be followed.

(5) Widely-Attended Firm Or Regional Meetings

Equity research analysts and Bankers may attend or participate in widely-attended Firm or regional meetings at which matters of general Firm interest are discussed. Equity Research Management and IB Management may attend meetings or sit on Firm Management, Risk or similar committees at which general business and plans (including those of the IB and Research) and other matters of general Firm interest are discussed. However, analysts should not communicate with Bankers regarding legal or compliance issues unless Legal or Compliance is present (or copied on the written or electronic communication).

(6) Widely-Attended Conferences

Non-Firm Conferences

A research analyst may attend or participate in widely-attended conferences, and widely-attended portions (*i.e.*, "break-out" sessions) of such conferences, attended by a Banker(s) or in which a Banker(s) participates, provided that the analyst and the Banker(s) do not meet privately with a company's representative(s) during the conference (*i.e.*, the analyst does not engage in any private, "three-way" meetings) and that the conference is not otherwise used as a means for the analyst to market investment banking services to potential customers. Before participating in any such conferences, the analyst should obtain prior approval from the Equity Research supervisor. As a general matter, a conference will be considered "widely-attended" if it is attended by at least 50 individuals.

Firm Conferences

If SAMCO hosts a widely-attended conference, a research analyst may communicate with a Banker(s) regarding general conference logistics, selection of speakers, and arrangements for a Banker(s) to appear on a panel at a Research-hosted conference (and vice-versa); provided that the final agenda is set by the department hosting the conference and any such communications (1) are "chaperoned" by Compliance; and (2) do not relate to attendee invitations.

(7) Social Events

As a general matter, a research analyst must not attend "three-way" social events with company representatives and Bankers. In certain instances, however, it may be appropriate for the analyst to interact with them socially, provided that neither the analyst's research views nor investment banking or other customer business is discussed. Before participating in any such social events, the research analyst should contact Compliance.

14.10.4.3 Participation By Research Analysts In Certain Investment Banking-Related Activities

Equity research analysts possess unique expertise regarding particular companies and industry or sector segments. From time to time, they may assist SAMCO by engaging in certain investment banking-related activities relevant to their areas of expertise. Below are some of the more common investment-banking related activities that traditionally have been associated with research functions. A research analyst may engage in these activities, provided that the analyst follows the applicable procedures. All such activities must be chaperoned by compliance or legal personnel or other counsel including any subsequent discussions between research and IB personnel about the joint activities.

If the analyst's participation in any of these activities may involve the transmission of material nonpublic information, SAMCO's procedures for crossing "information barriers" as set forth in the *INSIDER TRADING* chapter must be followed.

14.10.4.3.1 Pre-Mandate Due Diligence Activities

Screening Investment Banking Customers

A research analyst may assist SAMCO in pre-screening customers for potential investment banking transactions. The analyst must not engage in any such activities, however, unless the Equity Research supervisor or Compliance has pre-approved the analyst's participation. Requests for an analyst's participation in pre-screening activities must be initiated through the Equity Research supervisor; Bankers may not contact analysts initially.

Participation in Senior Management Meetings

A research analyst may communicate his or her views about a proposed investment banking transaction or potential candidate for a transaction to Senior Management in connection with its review of such transaction or candidate. The analyst must not engage in any such activities, however, **unless** the Equity Research supervisor or Compliance has pre-approved the analyst's participation. During such meetings, the analyst should candidly and accurately present his or her views regarding the proposed transaction or candidate.

IB personnel working on the proposed transaction also may be present and participate in these discussions. However, if IB personnel are present, the Committee will provide for a closed session at such meeting in which the research analyst will have an opportunity to express his or her views to the Committee outside the presence of such IB personnel.

The Equity Research supervisor or a designee will be present at any meeting of Senior Management.

14.10.4.3.2 Post-Mandate Due Diligence Activities

Confirming the Adequacy of Disclosures

Based on a research analyst's communications with the company and other vetting conducted outside the presence of IB personnel, the analyst may assist SAMCO in confirming the adequacy of disclosures in offering or other disclosure documents for a transaction. The analyst must **not** engage in any such activities, however, **unless** the Equity Research supervisor **and** Compliance have pre-approved the analyst's participation.

If an analyst's participation is approved, the analyst must not communicate his or her views to or in the presence of IB personnel **unless** such communication: (1) is made in the presence of underwriters' or other counsel on the transaction; or (2) is "chaperoned" by Compliance.

Participating in Pricing and Structuring Decisions

After SAMCO receives an investment banking mandate, or in connection with a block bid or similar transaction, a research analyst may: (1) communicate his or her views on the structuring and pricing of the transaction to capital markets personnel; (2) participate with capital markets personnel in the preparation of internal-use memoranda and other efforts to educate the sales force; and (3) provide to capital markets personnel other information the analyst has obtained from investing customers relevant to the pricing and structuring of the transaction.

A research analyst must **not** engage in any such activities, however, **unless** the Equity Research supervisor or Compliance has pre-approved the analyst's participation.

14.10.4.3.3 Block Bids And Secondary Or Follow-on Offerings

In the case of an investment banking transaction other than an IPO, IB and research analysts may participate in joint due diligence sessions with the issuer or third parties in connection with a block bid or with a competitive secondary or follow-on offering or similar transaction in which:

- the issuer or selling shareholder has contacted SAMCO to request that SAMCO submit a transaction proposal; and

- SAMCO's legal or compliance staff reasonably believes that SAMCO will not have a meaningful opportunity to conduct separate due diligence communications with the relevant parties prior to the award of a mandate for the transaction.

14.10.4.4 Prohibited Activities

14.10.4.4.1 No Solicitation Of Investment Banking Business

A research analyst **must not** participate in any efforts to solicit investment or corporate banking business. Accordingly, the analyst **must not** participate in any "pitches" for investment or corporate banking business to prospective customers, or have other communications with companies for the purpose of soliciting investment or corporate banking business.

By the same token, IB personnel must not direct or ask a research analyst to engage in any "pitches" or other communications with companies for the purpose of soliciting investment or corporate banking business. This means that Bankers should **not** ask an analyst to visit a customer or business prospect, or join them on a customer visit or phone call. An analyst may, however, visit or speak with a prospective or current customer as the analyst deems appropriate for purposes of conducting due diligence on a transaction.

14.10.4.4.2 No Participation In Deal-Related "Road Shows"

Research analysts **must not** participate in "road shows" related to a public offering or other investment banking transaction. To that end, an analyst may **not** review or comment on "dry run" road show presentations or materials prepared in connection with a road show related to a public offering or other investment banking transaction. By the same token, Bankers must not direct an analyst to engage in marketing or selling efforts to investors with respect to any investment banking transaction.

Research analysts are **not** prohibited from **passively** attending deal-related road shows or "dry run" road show presentations (e.g., via Webcast) for the purpose of learning about the company or the investment banking transaction; provided that, (1) any such participation must be pre-approved by the Equity Research supervisor or Compliance; (2) the analyst only "listens-in" (i.e., in "listen-only" mode) or views a Webcast of such road show; (3) the analyst listens in from a remote location (i.e., not at the same address); and (4) the analyst is not identified as being present. Legal and Compliance should be consulted regarding additional restrictions that may apply to an analyst's passive attendance.

Research analysts may educate investors and Firm personnel about a particular offering or other transaction, provided that the communication occurs outside the presence of the subject company or investment banking department personnel. Such communications must be fair and balanced, taking into account the overall context in which such communications are made.

14.10.5 Emerging Growth Companies (EGCs)

[JOBS Act, Title I; SEC JOBS Act Frequently Asked Questions: <http://www.sec.gov/divisions/corpfin/guidance/cfjobsactfaq-title-i-general.htm>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Potential EGCs
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Contact Compliance to: <ul style="list-style-type: none"> ○ Verify that an IB customer/potential issuer qualifies as an EGC ○ Obtain pre-approval regarding analyst activities relating to an EGC (meetings, etc.)

	<ul style="list-style-type: none"> ○ Compliance will notify the designated supervisor, bankers, and analysts that the issuer qualifies as an EGC and advise as to any applicable restrictions on activities/communications or notify that the issuer does not qualify as an EGC • Provide training for investment bankers regarding permitted activities involving EGCs
Record	<ul style="list-style-type: none"> • Compliance record of review of issuer to determine EGC status and notification to IB supervisor, Research supervisor, and applicable bankers and analysts about permissible activities involving research analysts

The Federal JOBS Act creates a category of issuers known as EGCs that have had total annual gross revenues of less than \$1 billion during its most recently completed fiscal year. An issuer remains an EGC until the earliest of:

1. The last day of the fiscal year during which it had total annual gross revenues of at least \$1 billion;
2. The last day of the fiscal year following the fifth anniversary of the issuer's initial public offering;
3. The date on which it has issued more than \$1 billion in non-convertible debt during the previous three-year period; or
4. The date it becomes a "large accelerated filer."

EGCs receive the following treatment under the Act:

- Confidential filing and review of initial public offerings;
- Permitted publication of research reports at the time of a proposed public offering;
- Permitted broker-dealer public appearances following an IPO and after the expiration of a "lock-up" agreement;
- Limited communications between research analysts and potential investors;
- Limited participation by a research analyst in meetings with management and others regarding securities offerings; and
- Permitted oral and written communications (including offers), both before and after the filing of a Securities Act registration statement, with potential investors that are QIBs or accredited investors.

EGCs also have certain disclosure advantages regarding IPO audited financial statements, less financial information to be filed for IPOs, and fewer disclosures under the Act as well as fewer corporate governance requirements than are imposed on non-EGC issuers.

Compliance must be contacted for review of the potential EGC prior to engaging in activities permissible for EGCs but not permissible for other issuers and prior to involvement with research analysts. Compliance will notify the banker, analyst, and appropriate supervisors whether the issuer meets EGC status and whether any restrictions apply.

14.11 Prohibition Against Offering Favorable Research To Induce Investment Banking Business

[NASD Rule 2711(e); FINRA Regulatory Notice 11-41]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor and/or Compliance
Resources	<ul style="list-style-type: none"> • Notification or indication that an issuer has expressed an expectation

	of favorable coverage
Frequency	<ul style="list-style-type: none"> • As required - take action when favorable research is expected by potential IB customers • Annually (or more frequently) - train IB personnel regarding prohibited promises of favorable research
Action	<ul style="list-style-type: none"> • When becoming aware of an issuer's expectation for favorable research: <ul style="list-style-type: none"> ○ Provide affected IB personnel with information regarding the prohibition ○ Confirm disclaimer language is included in pitch materials and RFPs ○ Confirm repudiation has been documented ○ Establish heightened supervision to review research materials for objectivity
Record	<ul style="list-style-type: none"> • Repudiation to the issuer • Heightened supervision of research on the subject company • Records of disclaimers

SAMCO may not agree to provide favorable research to an issuer to obtain the issuer's investment banking business. Pitch materials may not include information about SAMCO's research in a manner that suggests, directly or indirectly, that SAMCO may provide favorable research coverage. Pitch materials and responses to requests for proposals (RFPs) will include disclaimer language that SAMCO is not, and is unable to, make any promises about research coverage. An example of an inducement would be a CEO of an issuer to requiring candidates for the company's next offering to demonstrate their ability and willingness to follow the company and articulate why investors should own their stock.

If an issuer expresses its expectation, directly or implicitly, that the awarding of investment banking business is conditioned on SAMCO providing favorable research, the following steps must be taken:

- Notify the IB supervisor or Compliance of the issuer's communication;
- Expressly repudiate to the issuer any expectation with respect to the content of research coverage and document the repudiation;
- Heightened supervision will be implemented regarding solicitation activities, including pitch meetings and materials and other communications with the issuer; and
- Increased oversight of the preparation and content of research on the subject company.

14.12 New Issues

[FINRA Rule 5131(b)]

Firms are prohibited from engaging in "spinning" which is a prohibited practice. Following is the policy regarding spinning as it appears in the chapter *CORPORATE SECURITIES UNDERWRITING*. The IB Manager is responsible for ensuring IB personnel do not participate in allocation of new issues or attempt to influence employees responsible for allocations.

FINRA rule prohibits firms from allocating shares to obtain the investment banking business of a customer. SAMCO and its employees are prohibited from allocating shares of a new issue to any

account where an executive officer or director of a public company or a covered non-public company, or a person materially supported by such executive officer or director, has a beneficial interest:

- If the company is currently an investment banking services customer of SAMCO or the firm has received compensation from the company for investment banking services in the past 12 months;
- If the person responsible for making the allocation decision knows or has reason to know that SAMCO intends to provide, or expects to be retained by the company for, investment banking services within the next 3 months; or
- On the express or implied condition that such executive officer or director, on behalf of the company, will retain SAMCO for the performance of future investment banking services.

These prohibitions do not apply to allocations to any account exempt under FINRA Rule 5130(c) listed in the section *Restrictions On Purchase And Sale of IPOs Of Equity Securities - Exemptions* in the chapter *CORPORATE SECURITIES UNDERWRITING* with the exception of the de minimis exemption if beneficial interest does not exceed 10%. The spinning exception applies to persons materially supported by them in aggregate do not exceed **25%** of such account.

In addition, spinning prohibitions do not apply to allocations of securities that are directed in writing by the issuer, its affiliates, or selling shareholders, so long as SAMCO has no involvement or influence, directly or indirectly, in the allocation decisions of the issuer, its affiliates, or selling shareholders with respect to such issuer-directed securities. [FINRA 5131.01]

The New Issue Certification includes inquiry whether the potential purchaser is an executive officer or director or person materially supported by them.

14.13 New Product Approval Process

New products must be presented to Senior Management for review and approval prior to offering the new product. A new product or activity can be identified as one that:

- Requires a change or new system or procedure because existing systems or procedures cannot process it;
- Necessitates a new pricing or risk measurement methodology;
- Has unique regulatory, legal, reputation or credit risk characteristics.

Marketing, sales and/or trading activities in the new product may not be commenced until Senior Management has given its approval. Request for review should be submitted to Senior Management. Refer to the section *New Products* in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*.

14.14 Pitch Materials

14.14.1 Definition

"Pitch materials" are defined as any written (electronic or hard-copy) communication prepared in whole or in part by origination professionals that is delivered to the "public" (i.e., customers) for the solicitation of business. This includes "short form" and "follow-up" materials prepared by origination professionals that are sent to customers via hard copy and/or email.

14.14.2 Approval Of Pitch Materials

Pitch materials that adhere to the following guidelines will be deemed **APPROVED** and will therefore **NOT** require the supervisor's pre-review and approval (but do require post-review and approval):

- Appropriate legal entities are identified (i.e., SAMCO, affiliate names).
- Appropriate trade name disclaimers are utilized, if necessary.

Other pitch materials require the supervisor's pre-approval.

14.14.3 Other Disclosures And Guidelines

- Sources for all charts, graphs, etc. are cited (i.e., Bloomberg, FactSet, etc.).
- Information is factual and correct to the best of the preparer's ability.
- Presentation is fair and balanced.
- If research or analyst commentary is included in the pitch material, it must be approved by the Equity Research supervisor and **MAY NOT** include Firm research. Quotes must be complete and not out of context, and sources must be cited.
- Testimonials from customers regarding the quality of SAMCO's advisory/execution capabilities must adhere to the following:
 - Inclusion of the following: *"This testimonial may not be representative of the experience of other customers and is not indicative of future performance or success."*
 - If an amount is paid for the testimonial, the fact that it is a paid testimonial must be included.
 - If the testimonial concerns a technical aspect, the person providing the testimonial must have the experience/knowledge necessary to form a valid opinion.
 - **NOTE: This provision does not pertain to case studies listing only the names and contact numbers of customers as references.**
- Offers of Free Service. Reports, analyses or other services offered as "free" must be furnished entirely free and without condition or obligation.

14.14.4 Pitch Materials - Non-Permissible Items

Pitch Materials may **not** include the following:

- Any item not adhering to the guidelines listed above.
- SAMCO is prohibited from using its own research commentary, or even simply including a research analyst's biography or coverage universe, in IB pitches. This aspect of the policy is designed to ensure that we do not give the appearance that we are touting SAMCO's research capabilities (with the expectation that it will garner us IB business).
- Claims and Opinions - Specifically defined as: "Promises of specific results, exaggerated or unwarranted claims, misleading statements, unwarranted superlatives, opinions for which there is no reasonable basis or forecasts of future events that are unwarranted or that are not clearly labeled as forecasts."
- Hedge Clauses - Specifically defined as: "Cautionary statements or caveats that are misleading or inconsistent with the content of the material."
- "Internal Use Only" Material - not permitted in full or in part.

Research analysts may not participate in pitches, assist with the preparation of specific pitch materials, or review pitch materials prior to use.

Any questions regarding whether pitch material content can be considered as "approved" or as "non-permissible" should be brought to the attention of the appropriate supervisor and Compliance, **prior to the pitch material's use.**

14.14.5 Document Retention

Pitch materials must be retained for three years. Retained materials must include who prepared the material; other business units/individuals who contributed to the materials; and who approved the material, and when.

14.15 Underwriting Approval

Responsibility	<ul style="list-style-type: none">• Senior Management
Resources	<ul style="list-style-type: none">• Requests for review of potential commitments

Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Review proposed commitments Approve or disapprove or request more information Notify the Banker
Record	<ul style="list-style-type: none"> Meeting minutes Senior Management approval

SAMCO rarely does corporate underwritings. An underwriting is reviewed by Senior Management on a case by case basis.

14.16 Fairness Opinions

[FINRA Rule 5150]

Responsibility	<ul style="list-style-type: none"> IB supervisor Senior Management
Resources	<ul style="list-style-type: none"> Fairness opinion Fairness Opinion Review
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Manager: <ul style="list-style-type: none"> Review and approve opinion Confirm that required changes are made to the opinion
Record	<ul style="list-style-type: none"> Fairness opinions Fairness Opinion Review

FINRA Rule 5150 outlines requirements when SAMCO issues a fairness opinion. The rule requires that investors-shareholders be informed about potential conflicts of interest between SAMCO and the issuer and addresses specific procedures when issuing fairness opinions. This includes fairness opinions issued to the board of directors and/or any special committee or subset or committee of the board.

Specific requirements are explained below. In summary:

- Required disclosures must be included in the fairness opinion.
- The IB supervisor must approve the opinion and forward it, with the form, to the review committee.

14.16.1 Disclosures

Disclosures include "significant" payment or compensation. FINRA does not assign a quantitative number to "significant" but defines it as a payment or compensation that a reasonable person who reads a fairness opinion would have an interest in knowing in order to assess whether SAMCO has a potential conflict of interest. The receipt of *de minimis* fees (such as trading fees or other small incremental fees from account assets or activity) are not required to be disclosed. Disclosures may be descriptive rather than quantitative.

The fairness opinion must disclose if SAMCO:

- has acted as financial advisor to any party to the transaction that is the subject of the fairness opinion.
- will receive compensation, contingent on the successful completion of the transaction, for issuing the fairness opinion and/or serving as advisor. *[Includes significant payments or compensation from related transactions (e.g., stapled financings) if such transactions are contingent upon the completion of the transaction for which the fairness opinion was issued.]*
- will receive any other significant payment or compensation contingent upon the successful completion of the transaction.
- has had any material relationships that existed during the past two years or that are mutually understood to be contemplated in which any compensation was received or is intended to be received as a result of the relationship between SAMCO and any party to the transaction that is the subject of the fairness opinion. *[Includes material relationships between SAMCO and all parties to the transaction, not just the party requesting the fairness opinion. A fairness opinion issued to a target's board of directors would have to include disclosure of any relationship with the acquirer.]*
- has independently verified information provided by the company requesting the opinion where that information is used for a substantial basis of the fairness opinion. *[If verified, must include a description of the information or categories of information verified and the process or standards for independent verification. Where no information provided by the company is verified, include a blanket statement that no independent verification took place.]*
- has approved the fairness opinion through a fairness committee or whether approval is required. *["Fairness committee" is deemed by FINRA to include any committee or group that approves a fairness opinion in accordance with Rule 5150(b).]*
- expresses an opinion about the fairness of the amount or nature of the compensation to any of the company's officers, directors or employees, or class of such persons, relative to the compensation to the public shareholders of the company. *[Disclosure is required as to whether or not such an opinion is expressed.]*

14.16.2 Approval

Fairness opinions must be approved prior to issuance.

- Opinions will be approved by Senior Management (i.e. Chairman and President).
- The deal team must present the complete fairness opinion, including required disclosures and an explanation of valuation analyses used in the fairness opinion, to the manager of Investment Banking for review prior to submission to the committee. The manager is responsible for confirming that all required disclosures are included.
- Senior Management is responsible for reviewing the opinion (including a determination of whether the valuation analyses used in the opinion are appropriate) and approving or disapproving the opinion. The approval or disapproval and comments regarding necessary changes or other comments will be forwarded to the manager of Investment Banking.
- The manager is responsible for confirming that changes are made consistent with the instructions of the committee. If the fairness opinion is revised, it must be re-submitted to the committee for review.
- Senior Management will retain records of its reviews and its actions.

14.17 Origination, Record Retention, Closed Deal Files

14.17.1 Due Diligence

The Securities Act of 1933 can impose substantial civil liability on various parties, including the issuer, the underwriters, and the accountants involved in the preparation of a registration statement or offering document. In particular, these participants are subject to potential liability if any part of the effective registration statement contains an untrue statement of material fact or omits to state a material fact. Moreover, failure to conduct proper due diligence can result in the revocation by the SEC of a broker-dealer's registration.

An underwriter may avoid liability if it can affirmatively demonstrate that it, after a reasonable investigation or "due diligence," had grounds to believe and did believe that the registration statement or offering document did not contain a material misstatement or omission.

14.17.2 Investment Banking's Responsibility

Although the product origination groups have the primary due diligence responsibility, Bankers should work closely with their product origination partners to help ensure a thorough due diligence review has been conducted and documented. Contact Compliance or Legal with any questions.

14.17.3 Required Document Retention

Because an underwriter has the burden of proving its due diligence defense under the securities laws, it is essential that the investigation conducted by SAMCO be documented. One central "deal file" should be maintained and controlled by the Lead Banker. All other files shall be either merged into the central file or destroyed once the offering has been completed.

The central closed deal file should contain only clean, final copies of deal documents which may include, but not be limited to:

- Final closing documents (any preliminary drafts and all copies with other extraneous records such as handwritten notes should be discarded)
- Deal package (where applicable)
- Rating Agency Presentation (where applicable)
- Computational materials provided to investors (where applicable)
- Regulatory filings
- Pitchbooks or other marketing materials
- Other pertinent correspondence

All documentation related to a securities underwriting must be maintained for a period of three years; two years in an easily accessible place.

14.17.4 M&A Closed Deal Files

To comply with federal securities regulations, an M&A Closing File Checklist is designed to assist in collecting and retaining important documents relating to the engagement of SAMCO as financial advisor to customers in connection with M&A transactions.

This list of documents is not intended to be exhaustive. Given storage space constraints, SAMCO wishes to keep **final** copies of the **formal** documentation that is necessary to reflect SAMCO's relationship with the party or parties to the engagement and our work product. SAMCO does not want to retain copies of documents that are readily available from other sources, are merely drafts or contain information that is available in other documents that are being retained. Space constraints and the increasing lists involved in the retention of large transaction files make it desirable to retain only those items reflected on the list below or deemed by the deal team leader to be an important record that is in keeping with Firm policies.

Promptly upon closing of a transaction or after the expiration or termination of SAMCO's engagement, the deal team will compile the documents listed below as applicable into a file. The file will consist of paper documents. Copies of the file may also be kept in "pdf" format in addition to paper documents.

These files will be maintained in a readily accessible central location for a period of three years, with the most recent two years readily accessible.

Materials required to be maintained (if applicable):

1. **Discussions with Senior Management.**
 - Memorandum.
 - Engagement letter.
2. **Fairness Opinion Materials** (presentation materials vs. engagement letters, contracts or other exhibits).
3. **All board presentations during the engagement (only final).**
4. **Contractual Agreements with Customer and other Parties.**
 - Engagement Letters.
 - Confidentiality Agreements.
 - Indemnity Agreements.
 - Right of Refusal Letters.
 - Amendments or Terminations.
 - Approvals of Marketing Materials or Potential Purchasers, *etc.*
5. **SEC Filings** that refer to SAMCO and include copies or descriptions of our fairness or adequacy opinions.
 - Proxy statements, information statements, Schedules 14D-9 and TO.
6. **Marketing Materials approved by Customer.**
7. **Substantive Letters to SEC or Other Governmental Agencies from SAMCO or its counsel.**
 - Consents of SAMCO.
8. **Financing Commitments** (related to the transaction, *i.e.*, to either buyer or seller from SAMCO or its affiliates [if shared with deal team]).
9. **Opinion Letters or Formal Advice from outside counsel to SAMCO.**
10. **Working Group Lists.**
11. **Other Pertinent Correspondence.**

15 MUTUAL FUNDS

[NASD Rule 2830; FINRA Notice to Members 95-80]

15.1 Introduction

Mutual funds, for purposes of these policies and procedures, refer to open-end investment companies. In addition to mutual funds, this chapter includes sections on closed-end funds and unit investment trusts (UITs), which also are investment company securities but are not considered "mutual funds."

Key points for consideration when offering mutual funds include the following:

- RRs must consider sales charges when recommending mutual funds and determine the most advantageous cost structure for the customer including class types.
- Customer suitability determination includes consideration of investment objectives, other investments held, financial and tax status, and risk tolerance.
- Fund characteristics to consider include investment objectives, risk, cost structure, and underlying investments and strategies.
- Switching from one fund to another requires the customer's signed acknowledgment.
- RRs cannot "sell dividends" or facilitate customer "late trading" or "market timing."
- Required disclosures are included in prospectuses or summary prospectuses (open-end funds only) which must be provided to purchasers.

15.2 Mutual Funds Offered By The Firm

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Prospectuses and other information provided by mutual fund companies or other distributors• Selling agreements• Records regarding commission earned from sales of funds and revenue received from revenue sharing agreements or directed brokerage
Frequency	<ul style="list-style-type: none">• As required - signing selling agreements• As required - review potential revenue sharing agreements for compliance with anti-reciprocal rules• Quarterly - compare mutual fund commissions against revenue sharing or directed brokerage, if applicable• Annually - training for marketing, sales, and trading staff, as appropriate, regarding anti-reciprocal prohibitions
Action	<ul style="list-style-type: none">• Review information on mutual funds• Determine which fund companies' products to offer• Review dealer agreements for:<ul style="list-style-type: none">○ restrictions or obligations that may affect SAMCO's sales of the mutual fund and issue instructions to RRs, if necessary○ representation by the mutual fund company that it uses reasonable criteria when selecting Selling Brokers and has reasonable policies and procedures to avoid formal or informal directed brokerage arrangements• Execute dealer agreements with mutual fund companies• Provide education regarding mutual fund sales including prohibitions

	<p>under the anti-reciprocal rule</p> <ul style="list-style-type: none"> • Review special sales programs and promotions outside the standard commission schedule to determine compliance with the anti-reciprocal rule • Review for potential correlation between fund sales and directed brokerage commissions that may indicate violations of anti-reciprocal rules • Refer potential directed brokerage arrangements to Compliance for review and determination of corrective action • Review revenue sharing agreements: <ul style="list-style-type: none"> ○ At time of proposal to determine compliance with anti-reciprocal rules ○ To develop and provide disclosure to customers ○ To determine ongoing compliance with anti-reciprocal rules
Record	<ul style="list-style-type: none"> • Information used to determine which funds to sell • Signed dealer agreements • Notices to RRs of special restrictions or requirements included in dealer agreements • Records of special sales programs and promotions including the date of review, reviewer's signature/initials, and notes of action taken, if appropriate • Revenue sharing arrangements and disclosures to customers (Initial and quarterly reviews)

Mutual funds with a range of investments and objectives will be available for investment by customers.

15.2.1 Dealer Agreements

[FINRA Member Alert November 22, 2005]

SAMCO executes dealer agreements with mutual fund underwriters. Many agreements include restrictions against activities such as late trading or market timing, which are discussed later in this chapter. Any special requirements or restrictions included in dealer agreements and not already covered in this chapter will be communicated to sales personnel.

15.2.2 Anti-Reciprocal Rule

[Investment Company Act Rule 12b-1; SEC Release No. IC-26591; NASD Rule 2830(k); FINRA Notice to Members 05-04]

SAMCO is prohibited from favoring the sale of mutual funds based on revenues earned (directly or indirectly) from the investment company issuing the mutual fund. This includes:

- *Directed brokerage*, which is a practice where the investment company directs brokerage business to a broker-dealer to reward or compensate the dealer for selling its funds. This includes, directly referring brokerage transactions to the dealer that sells its funds and also "step-out" arrangements where brokerage is directed to another firm and then revenue is shared with the dealer selling the funds.
- *Undisclosed revenue sharing*, where the mutual fund company pays incentives to the broker-dealer to secure a prominent place in the selling dealer's distribution network ("shelf space").

If an employee becomes aware of a prohibited activity, it should be reported immediately to Compliance.

The selection and offer of mutual funds will comply with anti-reciprocal prohibitions. Specifically, SAMCO will not:

- Sell shares of, or act as underwriter for, any investment company where SAMCO is aware that the investment company or its investment adviser or underwriter have directed brokerage arrangements in place that are intended to promote the sale of investment company securities.
- Favor or disfavor sales of investment companies based on commissions received or expected and tied to sales
- Require such commissions to sell the funds or offer commission to another broker-dealer relating to their sale of funds
- Circulate information about commissions received from an investment company, other than to senior managers for purposes of managing SAMCO's business
- Sponsor or encourage an incentive campaign or special sales effort of another dealer financed by commissions received related to the sale of the funds
- For retail sales, provide incentive or special compensation based on the amount of commissions expected to be received from the fund or another source
- Establish recommended, selected, or similar preferred lists of investment companies if based on brokerage commissions
- Allow RRs and other sales personnel to participate in commissions received from investment company portfolio transactions
- Use the sale of investment company shares to negotiate the price or amount of brokerage commissions paid on investment company portfolio transactions

These prohibitions do not prevent execution of investment company portfolio transactions that are not tied to sales of the investment company's shares. RRs and managers may be compensated for sales attributable to them including the use of overrides, accounting credits, or other compensation, provided the extra compensation does not violate anti-reciprocal prohibitions.

15.2.2.1 Disclosure Regarding Revenue Sharing

If SAMCO engages in revenue sharing, it will clearly disclose such an arrangement to customers purchasing the applicable funds.

15.3 Sales Charges

[NASD Rule 2830(d)]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Daily Transaction Report• Fund information (<i>i.e.</i>, prospectus, Statement of Additional Information)• Exception reports (as available)
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review Breakpoint Worksheets for completeness, determination of sales charge discounts available to purchaser• Review order records to determine that discounts have been considered

	<ul style="list-style-type: none"> • Review daily transactions to determine same-day mutual fund purchases are considered for LOI and ROA discounts • Review orders for improper breakpoint sales (near but below common breakpoint levels [\$25,000, \$50,000, etc.]) • Review orders for purchases of multiple funds with similar investment objectives and confer with RR about the suitability of multiple purchases • Letter of Intent (LOI) reviews for: <ul style="list-style-type: none"> ○ Notation on Worksheet/order record whether an LOI will apply (including retroactive LOIs if permitted by the fund) • Rights of accumulation (ROA) review for indication on order record whether ROA applies • Where a customer has not been provided an available discount: <ul style="list-style-type: none"> ○ Confer with the RR ○ Notify the customer and correct the purchase to include the discount • Provide training to RRs on mutual fund purchases and sales charge discounts
Record	<ul style="list-style-type: none"> • Breakpoint Worksheets • Order records • Daily transaction reports • Exception reports (as available)

When investors purchase mutual funds (other than no-load funds), they incur sales charges that may be front-end or back-end charges. Mutual funds offer investors discounts to sales charges, which are explained in the fund's prospectus. This section describes different types of discounts available to mutual fund purchasers.

RRs are responsible for understanding the availability of sales charge discounts to provide the customer the opportunity to purchase a mutual fund under the most favorable terms available.

RRs are required to use the Breakpoint Checklist and Worksheet for every mutual fund purchase involving a sales charge. The Checklist and Worksheet are discussed at the end of this section. Customers also are provided, at the time of first purchase, with a Breakpoint Disclosure Statement explaining breakpoints and other available discounts.

15.3.1 Breakpoints

[FINRA Rule 2342]

For some mutual funds, front-end sales charges decrease as the dollar amount invested increases. These thresholds for reduced sales charges are called breakpoints. Different fund families establish different opportunities to link accounts, transactions, and share classes to qualify purchasers for reduced sales charges.

The RR has an obligation to disclose the existence of breakpoints to enable the customer to evaluate the desirability of making a qualifying purchase. The RR also must indicate on the mutual fund order if the customer qualifies for a breakpoint because of linked accounts, transactions, or share classes or other basis for meeting a breakpoint by linking the customer's transaction with another.

"Improper breakpoint sales" is a term that denotes selling mutual funds to maximize commissions earned, *i.e.*, selling an amount close to, but below a breakpoint. The customer will, therefore, pay a higher sales charge. This practice is prohibited.

Recommending diversification among several funds with similar investment objectives, particularly if sales occur in amounts just below the breakpoints of one or more funds sold, may not be in the best interests of the customer. If multiple purchases of different mutual funds is appropriate, but will preclude the customer from qualifying for a breakpoint, the customer should sign a letter acknowledging his or her understanding that a breakpoint is being given up by purchasing multiple funds.

Purchases of mutual funds under a breakpoint are not subject to breakpoint violations if the purchases are made as part of a bona fide asset allocation program sponsored by SAMCO. Customers who participate in a Firm-sponsored program are notified, as part of the agreement to participate in the program, that they may not receive breakpoint reductions that otherwise would be available.

15.3.1.1 Breakpoint Checklist And Worksheet

When selling a front-end load fund (Class A) to a customer, the RR is required to review the Breakpoint Checklist and complete the Breakpoint Worksheet, which is submitted with the mutual fund purchase order. The purpose of the Worksheet is to document required information about the customer's holdings to determine whether the customer qualifies for a reduced sales charge, including:

- Total holdings at SAMCO in the fund, or a related fund in the same family
- Total holdings outside SAMCO in the fund, or a related fund in the same family
- Total holdings of related parties (some funds provide discounts when related persons own the same fund, or funds in the same family of funds)

15.3.1.2 Breakpoint Search Tool

[<http://www.finra.org/fundsearch>]

A Breakpoint Search Tool is available from FINRA online. The tool provides breakpoint schedules and linkage rules for mutual funds with sales charges.

15.3.1.3 Breakpoint Disclosure Statement

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Mutual fund purchases
Frequency	<ul style="list-style-type: none"> • A customer's initial mutual fund purchase
Action	<ul style="list-style-type: none"> • Provide the disclosure statement
Record	<ul style="list-style-type: none"> • Record of providing the disclosure statement is included in customer account records

Customers who purchase Class A mutual funds, will be provided a Breakpoint Disclosure Statement that explains breakpoints and other discounts available to mutual fund purchasers.

15.3.2 Letters Of Intent

[FINRA Notice to Members 02-85]

A letter of intent (LOI) is an investor's written statement of intent to purchase a specified dollar amount of a single mutual fund or funds within a single fund group over a specific period of time. The aggregate investment over time may qualify for a breakpoint and a lower percentage sales charge.

The mutual fund purchase should indicate if the customer will execute a letter of intent so the lower sales charge will apply. Some funds allow investors to use an LOI retroactively to include the value of past purchases in the LOI period. The RR should determine whether the customer made a prior purchase within the allowable period and whether the fund allows backdated LOIs.

15.3.3 Rights Of Accumulation

[NASD Rule 2830(d)(1)(B); FINRA Notice to Members 02-85]

Aggregating purchases of a particular fund or family of funds by one investor (and sometimes family-related purchases) may qualify for rights of accumulation. A lower sales charge may apply, based upon the total dollar amount invested. The RR should ask the customer whether the customer has other holdings in the fund or fund family, to determine whether rights of accumulation may be available to the customer.

Mutual funds follow different rules to determine the value of existing holdings and when a customer qualifies for a breakpoint discount. Most funds use current net asset value (NAV) of existing holdings, and a small number of funds use historical cost (cost of the initial purchase). If historical cost is used, it may be necessary for the investor to provide account records to qualify for the breakpoint discount.

The mutual fund purchase should indicate rights of accumulation, if available, and the customer's desire to aggregate purchases to qualify for a lower sales charge.

15.3.4 Reinstatement Privilege

Some funds offer shareholders a "reinstatement privilege" allowing the shareholder to reinvest some or all of the proceeds from a prior liquidation of the fund within a specified period of time (for example, 180 days) at a reduced sales load or no sales load. The RR should determine whether the customer qualifies for a reinvestment privilege and, if he or she qualifies, note this on the order at time of entry.

15.3.5 Sales Charge Reductions/Waiver Or NAV Transfer Program

A limited number of mutual funds offer a sales charge discount in the form of a waiver or NAV transfer. Investors may purchase Class A shares of a mutual fund without paying a front-end sales charge, if investing some or all of the proceeds from the sale of a mutual fund in a different mutual fund family for which the investor paid a front-end or back-end sales charge within a specified period of time. The period when the discount is available is generally 30 to 90 days from the date the investor purchased the other fund. This type of discount is explained in the fund prospectus and Statement of Additional Information.

Generally, customers will not make short-term sales of mutual funds. In those unusual circumstances, where the customer is making such a sale, the RR should investigate whether a waiver is available on the new purchase.

15.3.6 Deferred Sales Charges

[NASD Rule 2830(n)]

If a customer purchases shares of a mutual fund that imposes a deferred sales charge on redemption, the front of the confirmation will include the following legend: "On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus."

15.3.7 Direct Application And Wire Order Accounts

Mutual funds allow investors to purchase funds directly (sometimes called "application way" or "wire order" purchases or accounts). RRs are not permitted to recommend, or to direct, that a customer make a direct purchase of mutual funds. All such purchases must be made through SAMCO.

15.3.8 Sales Charge Discounts Must Be Marked On Mutual Fund Orders

Because automated mutual fund order processing systems do not generally provide the ability to monitor application of an available sales charge discount, it is important that all pertinent information be recorded on the order and entered to the system, including whether the customer's purchase qualifies for a sales charge discount. Incomplete mutual fund orders will not be accepted and will be returned to the RR for completion of necessary information about available sales charge discounts.

Order entry procedures, including completeness of orders and proper application of available discounts, will be reviewed as part of the periodic review of sales practices in the office.

15.4 Switching

[FINRA Notice to Members 94-16 and 91-39]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Daily Transaction report
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review mutual fund orders for transactions where the customer sells one mutual fund to buy another mutual fund• When switching is identified, ensure the customer provides a signed switch letter
Record	<ul style="list-style-type: none">• Initials on order records and Daily Transaction Report• Switch letters signed by the customer and maintained in the office files

Switching is the selling or redemption of one mutual fund with a sales charge to buy another mutual fund with a sales charge. Recommended switches may not be based on the compensation to be received by the RR or SAMCO as a result of effecting the switch. As for all recommendations, the RR must have a reasonable basis for believing the switch is suitable for the customer.

The customer may incur multiple sales charges by changing from one fund to another or may be subject to an extended holding period, and there may also be tax consequences because of the switch. The concern is whether the switch is justified and whether the customer understands the consequences of the switch.

Switches between mutual funds that result in potential additional sales charges for the customer (whether front-end or back-end load) require that a letter be obtained from the customer acknowledging an understanding of the consequences of the switch. It is the designated supervisor's responsibility to ensure switch letters are obtained for switch transactions. The letter will be retained with the record of the order and/or in a file for the customer or for switch letters. FINRA prohibits the use of "negative consent letters," which are used to advise a customer that there will be a switch from one fund to another unless the customer responds before a specified date.

15.5 Market Timing Transactions

[FINRA Notice to Members 95-80]

FINRA has stated that recommendations to fund investors to engage in market timing transactions should be made, if at all, within a single family of funds or where there are no transaction costs

associated with the trades. Transactions that do not adhere to this standard may raise suitability questions.

15.6 Selling Dividends

Selling dividends is a practice of recommending the purchase of a mutual fund based on an imminent dividend distribution.

Since the price of a mutual fund is reduced by the amount of the dividend, there is no benefit to the customer unless there are specific tax or other advantages to the customer. In fact, there may be increased tax liability for the investor. A related concern is representing that distributions of long term capital gains by the mutual fund are or could be viewed as part of the income yield from the mutual fund.

15.7 Misrepresenting "No-Load" Funds

[NASD Rule 2830(d)(4)]

Certain funds impose a sales charge when the customer redeems or liquidates an investment ("back-end load" or contingent deferred sales charge). These charges are generally on a decreasing basis the longer the mutual fund is held. For example, a mutual fund may charge 5% if the shares are sold prior to being held 5 years, 4% if after 5 but before 6 years, *etc.* Other funds have a combined asset-based sales charge and/or service fee exceeding .25 of 1% of average annual assets.

Mutual funds with back-end loads or asset-based sales or service fees exceeding .25 of 1% may not be sold as "no-load" funds.

15.8 Reinvestment Of Maturing Certificates Of Deposit In Mutual Funds

[FINRA Notice to Members 93-87]

When funds from maturing certificates of deposit (CDs) are used for the purchase of mutual funds, including money market funds, customers must be advised of the material differences between the two products, particularly the greater risk to the customer's capital and the absence of any federal insurance or guarantee for assets placed into mutual funds.

15.9 Suitability

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Daily Transaction report• Customer monthly statements
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review mutual fund transactions for suitability with particular attention to the following:<ul style="list-style-type: none">○ Funds with high risk objectives: is the investment consistent with the customer's investment objectives?○ Purchasing multiple funds in different families that may result in higher sales charges: is diversifying funds justifiable and does the customer understand the higher cost, if applicable?○ Large purchases of class B shares that may qualify for lower

	<ul style="list-style-type: none"> sales charges if purchased as class A shares <ul style="list-style-type: none"> ○ Confer with RRs regarding any transactions that raise questions • Follow up action may include: <ul style="list-style-type: none"> ○ Requesting written acknowledgement from the customer that the higher costs are understood ○ Canceling transactions that appear to be inappropriate
Record	<ul style="list-style-type: none"> • Initials on order records and Daily Transaction Report • Notes on Daily Transaction report and/or Branch Manager's Log of follow up action, if appropriate • Customer's signed acknowledgement filed in the customer file, if appropriate

When recommending that a customer purchase, sell, or exchange a mutual fund, the following should be considered:

- Customer information including financial and tax status, investment objectives, other investments including other mutual funds
- Information regarding the fund to be recommended including sales charges, historical performance and volatility, risk, investment objective, and nature of the securities and investment strategies in the fund (use of leverage, investments in hedge funds or derivatives, etc.)
- Risk (fund investment risk and customer's risk tolerance)
- Appropriateness of high concentrations in any particular type of fund or investment

15.9.1 Multi-Class Mutual Funds

[FINRA Notice to Members 95-80]

Mutual funds often offer three classes of shares that are based on the same mutual fund portfolio but differ regarding costs incurred by the customer.

Class A shares: Generally impose a front-end sales load and no (or a low) ongoing fee to pay for sales and marketing expenses (Rule 12b-1 fees). Usually the front-end sales load will decrease at certain breakpoints depending on the size of the purchase and whether the purchase qualifies for a letter of intent or rights of accumulation which also may result in a lower sales charge. A front-end sales charge means a portion of the customer's funds are not invested and instead pay the front-end charge.

Class B shares: Generally do not impose a front-end sales charge but may impose a contingent deferred sales charge (CDSC) on share redemption and relatively high 12b-1 or other asset-based fees. The amount of the CDSC usually declines the longer the shares are held. Class B shares often automatically convert to Class A shares (with lower asset-based fees) after a period of time, usually after the CDSC declines to zero. All of the customer's funds are invested at the time of purchase. These funds may not be referred to as no-load funds since they impose a back-end contingent charge.

Class C shares: Have different expense features than A and B shares; may include no front or back-end load or a small back-end load; and higher 12b-1 or other asset-based fees. Class C shares are often used for managed accounts and asset allocation purposes.

In addition, some mutual funds offer other classes that impose no front-end or back-end sales charges and relatively low asset-based fees. These may be offered to limited types of purchasers such as retirement plans or institutional investors.

The following are guidelines for determining which class of shares is best for the customer:

- The cost advantages of one class versus another must be considered.
- Class B or C shares generally should not be recommended to customers making purchases in large amounts that may qualify for lower costs because of breakpoints, letters of intent, or rights of accumulation available through the purchase of class A shares.
- Class B shares should not be purchased for a customer if the RR knows or has reason to know that the customer will be purchasing additional shares that would take a purchase over a Class A breakpoint within 13 months of the initial purchase.
- Class B shares should not be purchased if potential additional purchases would qualify for a NAV price.
- Class A shares may be more appropriate for a customer who intends to remain invested in the fund for a longer period of time. Over time the higher continuing sales charges of Class B and C shares may exceed the initial load and smaller 12b-1 fees of Class A shares.
- Class C shares may be appropriate for a customer who does not qualify for a reduced Class A initial sales charge and who does not intend to remain invested in the fund for a period during which the fund's Class B shares are subject to a CDSC.
- Some funds waive the sales charge under circumstances specified in the prospectus (e.g., purchases by employees of broker-dealers and their immediate family members). If a Class A sales charge waiver is available, Class A shares will be less costly than Class B or C shares. A CDSC may be imposed on early fund redemptions of Class A shares where a waiver is granted; the prospectus should be consulted.

15.9.2 Considerations For Newly-Hired RRs

[FINRA Regulatory Notice 07-36; FINRA Notice to Members 07-06]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Information about transferring customers' investments in investment company products
Frequency	<ul style="list-style-type: none">• As required for proposed switching of investments
Action	<ul style="list-style-type: none">• Review existing investments against proposed substitute investments• Prepare and provide information to customers regarding investment options including that the customer may have to hold the existing investment at the prior firm, the cost of switching to another investment, and other considerations before changing investments
Record	<ul style="list-style-type: none">• Records of accounts reviewed and suitability determination, action taken including information provided to customers

There are considerations when a newly-hired RR transfers customers who hold investment company products (mutual funds, variable annuities). If SAMCO cannot or will not service the customer's existing investment (inability to transfer products, SAMCO does not have a dealer or servicing agreement), the appropriateness and suitability of recommending a new investment company product must be determined by the RR and SAMCO. Before liquidating existing investments and reinvesting in new products, disclosure must be made to the customer regarding the costs and benefits of any proposed change in investments and proposed replacement investments must be suitable. A change of employment is not by itself a suitable basis for recommending a switch from one product to another.

15.10 Late Trading And Market Timing

[FINRA Notice to Members 03-50]

Responsibility	<ul style="list-style-type: none">• Designated supervisor
Resources	<ul style="list-style-type: none">• Records of mutual fund transactions• Reports available to track mutual fund transactions
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review transactions for patterns of late trading• Identify patterns of "as-of" trades in mutual funds that may indicate late trading• Review transactions for indications of market timing (frequent in-and-out transactions in a mutual fund)• Determine whether market timing is permitted for the fund• Consult with Compliance when potential violations of late trading or market timing are identified• Take corrective action which may include contact with the fund, fund sponsor, or other person potentially engaging in the prohibited activities; limiting trading activity; closing the account; or other corrective action appropriate to the situation.
Record	<ul style="list-style-type: none">• Records reviewed for trading (whether order records or reports) are retained in supervision files including the date reviewed, the initials of the reviewer, and notes of corrective action, if appropriate.

There are two mutual fund trading activities that may violate SRO rules whether initiated by the RR or the RR facilitates the prohibited activity by assisting a fund manager, an investment adviser, a fund sponsor, a customer, or someone else in engaging in these activities.

Late trading is the practice of effecting an after-close mutual fund purchase or redemption at the same day's net asset value (NAV). NAV is usually calculated at 4:00 p.m. E.T., the close of the trading day, and orders received after the close are effected at the next day's closing NAV. Late trading is a violation of fair practices because it potentially permits someone to take advantage of market movements known after the 4:00 deadline and gives the person an advantage in determining whether to buy or sell a fund based on an already established price. **Engaging in late trading or enabling someone else to engage in late trading is prohibited.**

Market timing is rapid and repetitive in-and-out trading to take advantage of market movements such as buying an international mutual fund one day and selling it the next day because of movements in foreign markets that impact the fund's value. While trading a mutual fund is not, in itself, illegal or violates a rule, it often violates restrictions established by the fund on short-term market timing trades. **Engaging in market timing or knowingly aiding someone in activity that violates a mutual fund's internal trading guidelines is prohibited.**

There are valid reasons why an occasional mutual fund trade may be entered late and should be processed at the current day's NAV. There may also be funds that do not prohibit market timing. However, RRs must not engage in or assist someone else in engaging in prohibited late trading and market timing. Compliance should be contacted if someone proposes to engage in either activity.

15.11 Block Letter Restrictions

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Mutual fund block letters
Frequency	<ul style="list-style-type: none"> As required when letters are received
Action	<ul style="list-style-type: none"> Notify the RR and the RR's supervisor Monitor the account for potential violations of restrictions Take corrective action if violations are detected; action will include notifying the RR and the RR's supervisor; potentially closing the account and disciplinary action against the RR as determined by Compliance
Record	<ul style="list-style-type: none"> Mutual fund block letters Reviews of blocked accounts and action taken

Mutual fund companies sometimes issue "block letters" that limit the trading activity of a particular customer. This may occur if the fund detects trading that violates trading restrictions imposed by the fund such as late trading or market timing.

When a block letter is received, the RR and the RR's supervisor will be notified, and the RR is responsible for complying with the restriction. Orders may not be entered for the customer in another account that is beneficially owned by the customer to circumvent any restrictions.

15.12 Correspondence

[FINRA Rule 2210]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Outgoing correspondence
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> Review for the following: <ul style="list-style-type: none"> Use of pre-approved letters without change other than updating data where required Selling dividends (not permitted) Representing a back-end load fund as "no-load" (not permitted) Representing a fund with an asset-based sales or service fee exceeding .25 of 1% as "no-load" (not permitted) Representations regarding yield (there are specific requirements regarding quotation of yields; RRs should use materials provided by the fund or pre-approved by SAMCO) Recommendations that include switching or appear to recommend unsuitable diversification among funds Letters that include excerpts from the prospectus that would be misleading when taken out of context Disclosures, as applicable (see explanation in the section

	<p><i>Disclosure Of Material Facts)</i></p> <ul style="list-style-type: none"> ○ Performance is represented accurately and consistent with rule requirements regarding yield and return ○ Language that indicates a prospectus is enclosed • Contact Compliance for review of questionable correspondence • Correct unapproved content
Record	<ul style="list-style-type: none"> • Initials on correspondence • Compliance retains correspondence it reviews

RRs should use letters pre-approved by SAMCO and include a prospectus or limit correspondence to stating that a prospectus is enclosed and the RR will be in contact with the customer. Questions should be referred to Compliance.

15.13 Disclosure Of Material Facts

[FINRA Notice to Members 95-80]

FINRA has stated that there are material facts that should be disclosed to a customer when recommending a mutual fund. Items to be disclosed, if applicable or appropriate, include:

- the fund's investment objective
- the fund's portfolio
- historical income or capital appreciation
- the fund's expense ratio and sales charges
- risks of investing in the fund relative to other investments
- the fund's hedging or risk management strategy
- information regarding the structure of multi-class and master-feeder funds sufficient so the customer may understand and evaluate the structure
- potential tax consequences including tax on distributions and capital gains subject to tax
- potential risks if a fund invests in financial derivatives
- if an expense ratio is represented as an advantage of a particular fund, it is explained in the context of and compared with other mutual fund expense ratios

The mutual fund's prospectus and other sales literature generally include many if not most of these disclosures.

15.14 Disclosure Of Fees, Expenses And Performance

[FINRA Rule 2210(d)(5)]

Many firms prohibit generally all written discussion of a fund's performance and simply refer to the prospectus. When presenting performance information, an explanation of total return should explain that total return measures overall performance while current yield represents only the interest or dividend paid by the fund. Where appropriate, RRs should explain the difference between return of principal and return on principal. When providing information regarding distribution rates, the RR is responsible for explaining the difference between distribution rate and current yield.

Communications including performance (other than in institutional sales material and public appearances) about mutual funds (other than money market funds) must disclose:

- The standardized performance information required by '34 Act Rule 482 and Rule 34b-1; and
- If applicable:

- The maximum sales charge on purchases or the maximum deferred sales charge included in the current prospectus; and
- The total annual fund operating expenses, gross of any fee waivers or expense reimbursements, as stated in the fee table of the current prospectus.

This information must be prominent in the communication, and in any print advertisement in a prominent text box that may also include comparative performance and fee data and disclosures required under Rules 482 and 34b-1.

15.15 Prospectuses

RRs should provide a copy of the prospectus when recommending a mutual fund purchase to a customer. A summary prospectus may also be provided (if available from the investment company) for open-end funds. The summary prospectus includes reference to an internet site where the complete statutory prospectus is available along with other required information.

A copy of the fund prospectus will also be sent to each purchaser of a mutual fund. The designated supervisor is responsible for establishing procedures to ensure a prospectus is provided to each mutual fund purchaser.

15.16 Advertising And Sales Literature

[FINRA Regulatory Notice 11-49; NASD Notice to Members 93-36]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • SAMCO-approved advertising and sales literature
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Ensure only SAMCO-approved advertising and sales literature is used in conjunction with sales of mutual funds
Record	<ul style="list-style-type: none"> • Compliance retains records of SAMCO-approved advertising and sales literature.

There are specific requirements for advertising and sales literature regarding mutual funds. Advertising must be filed with FINRA within prescribed periods (see the chapter *COMMUNICATIONS WITH THE PUBLIC* and the section *Special Filing Or Approval Requirements* for details). There also are mandated guidelines on representations regarding performance and yield, including specific requirements when advertisements and sales literature include a TIPs fund's current yield.

RRs may use materials provided by the fund or firm-approved materials. Any other advertising or sales literature must be approved by Compliance prior to use.

15.17 Sales Material Provided By Third Parties

[FINRA Rule 2210(b)(1); FINRA Regulatory Notice 08-27 and 08-12]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Proposed sales material from third parties

Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> For third-party material previously filed with and approved by FINRA: <ul style="list-style-type: none"> Obtain a copy of FINRA approval Review the material for consistency with FINRA standards and approval For third-party material NOT previously filed with FINRA: <ul style="list-style-type: none"> Review the material for consistency with FINRA standards File with FINRA, if required <ul style="list-style-type: none"> Upon receipt of review letter, make changes, if necessary Indicate supervisor's approval including date of approval
Record	<ul style="list-style-type: none"> Copy of sales material with notations, as necessary Copy of FINRA review letter Record of date first use and (if applicable) date of last use Retain for three years from date of last use

When sales material (advertising, sales literature, independently prepared reprints) is provided by a third party, the sales material may require FINRA approval prior to use depending on the subject of the sales material. Requests to use outside sales material should be submitted to Compliance for review and approval.

15.18 Dealer-Use-Only Material

[FINRA Notice to Members 95-80]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Outgoing correspondence
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> Ensure the branch does not distribute dealer-use-only materials to the public Review correspondence to identify inclusion of restricted materials
Record	<ul style="list-style-type: none"> Initials on correspondence

Materials provided by fund distributors for dealer-use only may not be provided to customers and must not be displayed in a public area such as a reception area where customers obtain written information regarding investments. Dealer-use-only material is often provided as educational material for dealers and their RRs. There is no requirement to file this material with FINRA because it is for internal use only.

All dealer-use-only material will be marked as such with limited distribution.

15.19 Seminars And Other Public Presentations

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Outlines of proposed seminars and other public presentations that include mutual funds
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review outlines for appropriateness of presentation • Make necessary changes and approve (or disapprove, if appropriate) • Remind the RR of the requirement to provide prospectuses and compile a list of attendees who received prospectuses if specific mutual funds will be offered • If wholesaler sales materials will be included, ensure Compliance approves prior to use
Record	<ul style="list-style-type: none"> • Initials on outlines which are retained in the office Public Speaking file • List of attendees who received prospectuses (if appropriate) retained in the office Public Speaking file

The following guidelines apply when an RR or SAMCO sponsors a seminar for customers or prospective customers and where mutual funds are the subject of the seminar:

- An outline of the seminar must be provided to the designated supervisor prior to conducting the seminar.
- If specific mutual funds are recommended, prospectuses must be provided to those who attend and a list retained of to whom prospectuses were provided. A copy of the list is to be provided to the designated supervisor after the seminar.
- If a wholesaler makes a presentation at the seminar, the sales materials used (*i.e.*, story boards, scripts, handouts, *etc.*) must be approved by Compliance prior to the seminar.

The designated supervisor is responsible for approving and filing the outline of the seminar and the copy of the prospectus list, if applicable. Compliance is responsible for approving any wholesaler sales materials and filing it with FINRA's Advertising Department within 10 days of use.

15.20 Sales Contests And Incentive Programs

The following guidelines apply to sales contests and other incentive programs where mutual funds are the subject of the contest or program. Also refer to the chapter *ORDERS* and the section *Sales Contests* for general guidelines applying to all contests.

- All Sales contests must be approved by Compliance.
- Contests may not be based on the amount of brokerage commissions received or expected to be received from investment companies.
- When SAMCO acts as underwriter of investment company shares, SAMCO may not sponsor a contest or other incentive campaign of another broker-dealer with respect to the sale of shares of the investment company.
- RRs may not accept (directly or indirectly) cash or non-cash compensation from outside SAMCO.

15.21 Prompt Transmission Of Applications And Payments

[NASD Rule 2830(m)]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Mutual fund/variable annuity applications • Record of when transmitted by the RR such as postmarks on envelopes
Frequency	<ul style="list-style-type: none"> • Review applications: as required when applications are received • Review delayed transmittals: Monthly
Action	<ul style="list-style-type: none"> • Transmit applications to the payee (underwriter, investment company, or other designee) by: <ul style="list-style-type: none"> ○ the end of the 3rd business day following receipt of the customer's order to purchase; or ○ the end of 1 business day following receipt of the customer's payment, whichever is later • When SAMCO acts as underwriter and engages in wholesale transactions of shares received from other members, payments will be transmitted by the end of 2 business days following receipt of the payments • Review customer's signature date vs. postmark or other record of transmittal by the RR • Document transmittals more than 2 business days after customer signature date • Review delayed transmittals and: <ul style="list-style-type: none"> ○ for 3 or more occurrences within 12 months, notify the RR's supervisor to meet with the RR ○ for another occurrence within 12 months, assess a fine to the RR
Record	<ul style="list-style-type: none"> • Applications • Documentation of delayed transmittals including record of who reviewed, when reviewed, and action taken

RRs are obligated to transmit mutual fund (and variable annuity) applications and customer payments to the designated office/application processor **on the same day as they are received**. SAMCO is obligated, by FINRA rule, to transmit the customer's payment to the underwriter within a short timeframe after receipt from the customer.

Failure to transmit applications and payments promptly is a violation of FINRA rules. RRs who do not comply with prompt transmission requirements may be subject to disciplinary action.

15.22 Redemption Of Outside Funds

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.

15.23 Closed-End Funds

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Transaction reports that include closed-end funds
Frequency	<ul style="list-style-type: none"> • Daily

Action	<ul style="list-style-type: none"> • Review CEF trading for: <ul style="list-style-type: none"> ◦ Short-term trading, particularly involving IPOs ◦ Suitability of recommendations • Take corrective action, if appropriate, which may include: <ul style="list-style-type: none"> ◦ Conferring with the RR ◦ Contacting the customer ◦ Consulting with Compliance ◦ Cancelling trades • Include CEFs in training, particularly the disadvantages of short-term trading
Record	<ul style="list-style-type: none"> • Reviews of transactions including date reviewed, initials of reviewer, and actions taken, if any • Records of training including who attended, date conducted, and subjects included

Closed-end funds (CEFs) are investment companies that issue a finite number of shares that trade in the open market, usually on a stock exchange. Because they trade like other stocks, requirements that apply to open-end mutual funds such as switch letters and prospectuses provided to all purchasers generally do not apply to CEFs. Certain features of mutual funds such as breakpoints, letters of intent, and rights of accumulation are not features of closed-end funds.

Since CEFs trade like stocks, requirements regarding handling orders in the chapter *ORDERS* apply. For example, RRs may not recommend or engage in excessive trading of CEFs, and recommendations are subject to suitability requirements.

Recommendations to purchase an IPO for a CEF may not be appropriate for short-term investors since there is a built-in sales charge. After the offering, CEFs typically trade at a discount from the IPO price. Recommending the sale of a CEF IPO after the penalty bid period (during which the RR would not earn commissions on the purchase) at a loss and then recommending the purchase of another CEF would be unsuitable.

The high distribution rates may be composed of dividends, interest income, capital gains and/or return of capital. RRs should consider and communicate to investors, where it applies, that a high rate of return may be a return of capital and not actual income for the investor and the funds trade at a high premium compared to NAV.

15.23.1 Business Development Companies (BDCs)

BDC funds may represent higher risk that must be considered when recommending them and communicating risks to investors. Following are some of the risk factors that must be considered.

- BDCs primarily invest in the corporate debt and equity of private companies which may offer higher yield through leveraged high credit risk exposure.
- Fueled by the availability of low-cost financing, BDCs may over-leverage illiquid portfolios.
- Non-traded BDCs are illiquid and investors may be limited to selling only through periodic share repurchases by the BDC at high discounts.

15.24 Leveraged Loan Products

Leveraged loans are adjustable-rate loans extended by financial institutions to companies of low credit quality that have a high amount of debt relative to equity. Floating-rate bonds do not trade on an organized exchange, making them relatively illiquid and hard to value. Funds investing in these loans may be marketed as less vulnerable to interest rate fluctuations and offer inflation protection, but the underlying loans held by the fund are subject to significant credit valuation and liquidity risks unclear

to investors. RRs must consider and communicate these risks when making recommendations to investors.

15.25 Unit Investment Trusts (UITs)

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Available reports• Information regarding charges and discounts
Frequency	<ul style="list-style-type: none">• As required when UIT transactions are effected
Action	<ul style="list-style-type: none">• Review transactions for:<ul style="list-style-type: none">○ appropriate sales charges including discounts available○ Suitability, particularly patterns of sales and switching
Record	<ul style="list-style-type: none">• Order records including record of review, action taken• Reports reviewed including record of review, action taken

UITs are investment company securities that invest in a fixed portfolio of securities such as corporate, municipal, or government bonds, mortgage-backed securities, common or preferred stock, or other investment company shares. Unit holders receive an undivided interest in both the principal and the income portion of the portfolio in proportion to the amount of money invested.

Unit investment trusts have a finite life that ends when all securities in the portfolio have matured or are liquidated per the terms of the trust.

15.25.1 Suitability

As for other securities, the RR is responsible to making a suitability determination prior to recommending a UIT to a customer. Considerations include the types and safety of securities in the UIT, call features of the trust, and the maturity date for the trust. The length of time the investor intends to hold the investment should be considered when recommending a UIT, since a secondary market for the UIT may not be assured and prices available in the secondary market may vary considerably from the liquidation value of the trust.

15.25.2 Sales Charges

UITs impose sales charges including front-end and back-end loads and management fees. In addition, like mutual funds, discounts may be available through breakpoints, letters of intent, and rights of accumulation. Some UIT sponsors offer rollover and exchange discounts for purchases made with the proceeds from a UIT originally purchased from the same sponsor **as well as UITs purchased from a different sponsor**.

RRs are required to consider charges and discounts available to determine that the customer will receive the best available price.

15.25.3 Primary Offerings

While UITs are not "mutual funds," they have some features similar to mutual funds, particularly in the initial offering of a UIT. The purchaser of a new UIT pays a load or other charges as described in the prospectus. Purchasers are provided a prospectus describing the UIT.

15.25.4 Secondary Market Transactions

A secondary market exists for many UITs. Investors may liquidate or purchase a UIT by placing an order to sell or buy it in the secondary market, if one exists. The price the investor pays to purchase in the secondary market may include a premium based on the market value of the securities in the portfolio. The customer may not recover that amount when the trust matures or is called.

Prospective UIT investors must not be misled regarding the potential return of UITs purchased in the secondary market. Any communication regarding the estimated current return should be accompanied by a quotation of the UIT's long-term yield or internal rate of return.

Secondary market purchasers are provided a copy of the UIT prospectus at time of purchase.

15.26 Funds Of Hedge Funds

[FINRA Notice to Members 03-07]

A fund of hedge funds is an investment company that invests in multiple hedge funds and provides some diversification through the underlying investments. A fund of hedge funds allows retail investors who would not otherwise qualify to invest in a hedge fund to do so through the fund.

Because the underlying securities (hedge funds) are generally unregistered, high-risk securities, RRs must consider the risk of the underlying hedge funds prior to recommending the fund to customers.

15.26.1 Characteristics And Risks Of Hedge Funds

When recommending a fund of hedge funds, it is important to understand the general characteristics and risks of hedge funds. While a fund of hedge funds provides diversification, the underlying funds represent a higher level of risk that should be considered when making a recommendation to a customer.

Hedge funds have the following general characteristics and risks:

- not registered under the Investment Company Act and exempt from registration under the '33 Act
- high minimum investments, often \$1,000,000 or more
- wide differences in the fees for investments in registered vs. unregistered hedge funds. Managers of unregistered hedge funds may receive both a management fee and a direct percentage in the profits earned.
- often engage in leveraging and other speculative investment practices that may increase the risk of investment loss
- can be highly illiquid
- are not required to provide periodic pricing or valuation information to investors
- may involve complex tax structures and delays in distributing important tax information
- are not subject to the same regulatory requirements as mutual funds
- often charge high fees to their direct investors

15.27 Exchange-Traded Funds (ETFs)

[FINRA Regulatory Notice 09-31; FINRA Non-Traditional ETFs FAQ:
<http://www.finra.org/Industry/Regulation/Guidance/P119781>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor• Product Manager
Resources	<ul style="list-style-type: none">• Descriptions of proposed ETF products to be sold

	<ul style="list-style-type: none"> • Transactions and proposed transactions in ETFs • Transaction reports • New account information
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Product Manager: Determine the type of investor for whom the product is suitable and include this in training and marketing materials • Designated Supervisor: <ul style="list-style-type: none"> ○ Review for suitability of recommended ETFs, particularly non-traditional ETFs ○ Consult with RRs, where appropriate, when non-traditional ETFs are sold to individual investors ○ Include ETFs in training, particularly for non-traditional ETFs
Record	<ul style="list-style-type: none"> • Product Manager: Records of review of proposed products and determination of for whom the product is suitable • Designated Supervisor: Order records including notation of action taken, if any

ETFs are open-end investment companies or unit investment trusts (UITs) listed on stock exchanges; they can be bought and sold throughout the trading day at the current market price. A typical ETF is based on specific domestic and foreign market indexes. An index-based ETF tracks the performance of an index by holding in its portfolio either securities replicating the index or a representative sample of the securities in the index. ETFs also track non-traditional investments such as commodities and currencies. Some ETFs track indexes inversely (*i.e.*, the ETF rises when the index falls) and new ETFs are continually evolving.

Following are considerations when recommending ETFs:

- Recommendations must consider what the ETF tracks to determine suitability for the proposed investor.
 - Where a commodity such as oil underlies the fund, it is important that the customer understands how the ETF is impacted by changes in price of the underlying commodity.
 - ETFs that track narrow sector or foreign market indexes can be highly concentrated and highly volatile or might fail to track their indexes properly. They also may have higher fees than ETFs based on broader indexes.
 - An ETF that invests in a sampling of the tracked index may not perform consistent with the index.
- Some ETFs sell short, others use leverage, and others use a combination of the two. Some ETFs are more complex financial instruments that offer leverage or are designed to perform inversely to the index or benchmark they track, or both. Leveraged ETFs amplify daily index moves; short selling provides the inverse daily return of market indexes. Targeted leverage levels don't necessarily meet targets over long periods due to compounding returns. Investors in these types of ETFs must be willing to assume higher risk.
- Some inverse ETFs track broad indices, some are sector-specific, and still others are linked to commodities or currencies.
- Most leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. The effect of compounding affects their performance over longer periods of time when their performance can differ significantly from the underlying index or benchmark during the same time period. Volatile markets can magnify this effect.

- ETFs are not suitable for a customer who wants to make regular periodic investments since each transaction will generate a commission cost. ETFs are more appropriate for larger lump-sum investments.
- Some ETFs allow investors to cash out their investment with the issuer.
- ETFs may be subject to temporary price disparities during times of highly volatile markets when ETF shares may trade for significantly less than the value of underlying assets. This risk is of particular concern to short-term traders.
- ETF shares can be sold short and bought on margin.
- For most ETFs, holdings are transparent, *i.e.*, an investor will know what is being held by the ETF by the makeup of the tracked index. However, in the case of an actively-managed ETF, knowledge of investments may not be available to investors.
- ETFs may have lower annual expenses than traditional funds; however, investors incur commission costs for each purchase and sale in the market.
- ETFs may be more tax efficient than regular mutual funds. Since shares are traded in the secondary market, the ETF is not required to liquidate its portfolio to satisfy fund sales and therefore reduces generation of capital gains distributions to investors that result in tax liabilities each year.
- ETFs do not offer dividend reinvestment plans which are available from regular mutual funds.

15.27.1 Customer Disclosures For Pre- And Post-Market Sessions

[NASDAQ Rule 4631]

Prior to accepting a pre- or post-market session order in ETFs, the customer must be provided with the Extended Hours Trading Risk Disclosure that explains the trading risks associated with extended hours trading.

16 OPTIONS

16.1 Option Registration

[NASD Rule 1022(f)]

RRs must be qualified to engage in the sales of options contracts. Anyone who has successfully completed the Series 7 General Securities Representative examination is qualified to sell options.

RRs engaged in the sale of options are required to be supervised by a qualified Registered Options Principal (ROP). Supervisors are qualified as ROPs by passing prerequisite supervisor exams and the Registered Options Principal examination or by passing the General Securities Sales Supervisor (Series 10) examination.

16.2 Supervision Of Option Activities

[FINRA Rule 2360(b)(20)]

ROPs are responsible for approval of accounts, review of transactions and communications, and other supervision required by rule. The designated supervisor for each office that conducts options business will be qualified as an ROP, except for offices with three (3) or fewer RRs which may be supervised by an ROP or General Securities Sales Principal in another location.

Where secondary approval is required (discretionary accounts, accounts requesting trading levels where the customer does not meet minimum requirements, *etc.*), a qualified ROP in Compliance will review and approve such accounts.

16.3 Opening Option Accounts

[FINRA Rule 2360(b)(16)]

16.3.1 Option Agreements And Approval Of Option Accounts

Responsibility	<ul style="list-style-type: none">• Designated Supervisor• Compliance
Resources	<ul style="list-style-type: none">• Customer Option Agreement• Order records• Daily Transaction Report
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review option agreements and approve for appropriate trading level• Ensure option agreements are submitted for approval prior to the customer's first option transaction• Restrict accounts from further opening transactions where the customer's signed option agreement has not been received within 15 days of the first option transaction• Compliance: A qualified ROP will review accounts where the customer does not meet minimum criteria for the level of trading requested and approve or disapprove.
Record	<ul style="list-style-type: none">• Customer's signed Option Agreement signed and dated by the approving supervisor

	<ul style="list-style-type: none"> • Records of providing option disclosure document • Records of providing uncovered short options disclosure • Compliance written justification if an account is approved for a level of trading for which the customer does not meet minimum criteria
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Prior to the first option trade, a completed option agreement must be approved by a ROP or qualified sales supervisor (Series 10). In offices where no qualified supervisor resides, a local supervisor may approve the option account but a qualified supervisor must approve the account within 10 days of the local supervisor's approval.

RRs are responsible for obtaining the required information on SAMCO's customer option agreement. The customer must sign the option agreement confirming the information included on the form and agreeing to abide by the requirements included on SAMCO's agreement.

The customer's signed option agreement must be submitted to SAMCO within 15 days of approval. Failure to receive the customer's signed option agreement within 15 days will result in restricting the customer's account to closing option transactions until the agreement is received.

16.3.1.1 Levels Of Option Trading

The following guidelines apply to accounts requesting approval to trade at various levels:

- Minimum net equity of \$25,000
- Minimum maintenance in the account of \$25,000

Accounts approved for these trading levels that do not meet the minimum criteria require the review and written notation by Compliance to explain why the account was approved for that level.

16.3.1.2 Requalifying An Account's Approved Option Levels

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Customer Option Agreement
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review and approve (or disapprove) new option agreements that revise a customer's approved level of trading
Record	<ul style="list-style-type: none"> • Customer's Option Agreement signed and dated by the ROP • Copy of Customer Option Agreement retained in branch customer file and Firm's new accounts file

When a previously-approved option account is to be approved for a higher level of option, a new option agreement is required. The new agreement is to be approved by a ROP or qualified sales supervisor and sent to the customer for verification of account information on the form.

16.3.2 Uncovered Short Options

[FINRA Rule 2360(b)(11)(A)(2) and 2360(b)(16)(E); FINRA Notice to Members 06-54]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance
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Resources	<ul style="list-style-type: none"> • Customer Option Agreement • Special Statement for Uncovered Option Writers
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Compliance: For accounts not meeting minimum criteria for approval but submitted for approval, review and, if approved, a qualified ROP will document why the account is approved for uncovered short option trading • For accounts approved for uncovered short options, provide the Statement • When the Special Written Statement is revised, provide the revised copy to existing customers approved for uncovered short option trading before or with the confirmation of the next uncovered short option transaction
Record	<ul style="list-style-type: none"> • Copy of customer's acknowledgement of receiving the Statement retained in the customer file • Documentation of approving an account that does not meet minimum criteria is included with option account approval documentation

All accounts that are approved for uncovered short options will be provided with the Special Statement for Uncovered Option Writers ("Statement") before or with the confirmation of the first uncovered short option transaction. If the Statement is revised, the revised version will be provided before or with the confirmation of the next uncovered short option transaction.

Following are the minimum criteria for approval of an account to trade uncovered options:

- [minimum criteria]

If the account does not meet the above criteria and the account wishes to trade uncovered short options, Compliance review and approval is required.

16.3.3 Option Disclosure Document (ODD)

[FINRA Rule 2360(b)(11)(A)]

All customers will be provided the required disclosure document either before or with the confirmation of the first option transaction.

In addition, whenever the disclosure document is revised, a new copy will be sent to all option accounts in existence at the time of the revision.

16.3.3.1 Hyperlink Delivery Of The ODD

[SEC Securities Exchange Act of 1934 Release No. 39356 dated November 25, 1997; FINRA Notice to Members 98-03]

- Communications that contain clear and prominent hyperlinks to the ODD are considered to have been preceded or accompanied by the ODD.
- The ODD may be delivered via hyperlink to that document if the customer has consented to receive documents electronically from SAMCO.

16.3.4 Fiduciary Accounts

Compliance will review trusts, pension plans, and other fiduciary accounts to determine whether options transactions are permitted in the document (trust agreement, *etc.*) governing the account.

16.4 Option Orders

16.4.1 Suitability Of Option Transactions

[FINRA Rule 2360(b)(19)]

When recommending opening option transactions, RRs should have a reasonable basis for believing the customer has the knowledge and experience in financial matters that he/she may be reasonably expected to be capable of evaluating the risks of the recommended transaction, and financially able to bear the risks of the recommended position. Suitability determinations are based on the information provided by the customer including the RR's understanding of the customer's ability to evaluate the risk and financial ability to bear the risk.

16.4.2 Review Of Option Orders And Accounts

[FINRA Rule 2360(b)(20)(C)]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Daily Transaction Report• Customer monthly transaction records• Option Agreements• Other available reports
Frequency	<ul style="list-style-type: none">• Daily (order records, Daily Transaction Report)• Periodically (customer monthly transaction records)
Action	<ul style="list-style-type: none">• Review for completeness of orders (open or close, put or call, <i>etc.</i>)• Review for orders requiring prior approval and prohibited transactions• Review daily transactions and customer monthly statements for suitability of option transactions, including the following:<ul style="list-style-type: none">○ Compatibility of option transactions with investment objectives and approved trading levels○ Size and frequency of option transactions○ Commission activity○ Profit or loss in the account○ Undue concentration in any options class or classes○ Compliance with Reg T• Take corrective action which may include consulting with the RR and/or Compliance, requalifying an option account, canceling the order, education for the RR, or other appropriate action
Record	<ul style="list-style-type: none">• Initials on order records, Daily Transaction report, and monthly transaction records• Supervisor's log or other record recording review of accounts

The designated supervisor is responsible for review of option orders to identify transactions inconsistent with policy requirements including incomplete orders and transactions that appear to be unsuitable for the customer. Supervisory offices will have available (electronically or in hard copy) records enabling review of option accounts.

16.4.2.1 Accounts Trading Outside Approved Levels

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Customer Option Agreement Order records Daily Transaction Report
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> If a customer is trading outside the approved level on the customer's option agreement: Confer with the RR regarding whether the customer's trading level should be amended If yes, require a new option agreement from the customer and review for higher level of trading If no, immediately inform the RR trading outside approved levels must cease Consider contacting the customer to determine whether the violative transaction should be canceled, and cancel if appropriate
Record	<ul style="list-style-type: none"> Initials on order records and Daily Transaction report Notes of action taken on Daily Transaction Report or supervisory log or other written record

SAMCO has established procedures to identify accounts that trade outside approved option levels. RRs may be required to complete a new option agreement to re-qualify the customer or orders may be canceled if deemed inappropriate for the customer.

16.4.3 Prohibited Transactions

[FINRA Rule 2360(13) and 2360(14)]

The following transaction(s) is/are not permitted:

- [types of transactions]

16.4.4 Disclosure Of Option Order Routing

[SEC Regulation NMS Rule 606]

SAMCO is obligated to publish statistics regarding customer agency orders in options. Procedures for publishing the required information are detailed in the chapter *ORDERS* in the section *Disclosure Of Order Routing*.

16.5 Option Programs

Responsibility	<ul style="list-style-type: none"> Designated Supervisor Compliance
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Resources	<ul style="list-style-type: none"> • Programs proposed by RRs • Outgoing correspondence regarding option programs • Order records • Daily Transaction Report
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Compliance: Review proposed program and approve or disapprove; review and approve written explanation • Designated supervisor: <ul style="list-style-type: none"> ○ Refer all option programs to Compliance for review and approval ○ If an option program is approved, monitor correspondence and transactions to ensure consistency with the stated program
Record	<ul style="list-style-type: none"> • Compliance retains a copy of the approved option program and written explanation • Designated supervisor initials on order records and Daily Transaction Report

The use of option programs that involve the systematic use of one or more options strategies requires the prior review and approval by Compliance. The customer must be provided with a written explanation of the nature and risks of the options program, including an explanation of the strategies and the purposes of the program. The written explanation must be approved by Compliance prior to use. The RR is required to maintain a record of the date and to whom the explanation was sent.

Where sales literature describes an options program, the cumulative history or unproven nature of the program and its underlying assumptions will be disclosed.

16.6 Option Operations Procedures

This section describes some of the operations procedures relating to options. The Operations Department is responsible for these areas.

16.6.1 Reporting Positions

[FINRA Rule 2360(b)(5)]

The designated operations supervisor is responsible for reporting option positions in accordance with SRO requirements.

When SAMCO is not a member of the options exchange upon which the standardized options are listed and traded, SAMCO is required to file a report with FINRA regarding the following accounts which have established an aggregate position of 200 or more option contracts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security or index:

- each account in which SAMCO has an interest
- each account of a partner, officer, director or employee of SAMCO
- each customer, non-member broker, or non-member dealer account

Reporting combines long positions in put options with short positions in call options and short positions in put options with long positions in call options.

16.6.2 Position Limits

[FINRA Rule 2360(b)(3)]

Customers are subject to limits on how many contracts may be accumulated in a particular option at any one time. Total positions include all accounts under "common control" by one party. An example of common control would be a registered investment adviser who manages multiple accounts and establishes option positions in accounts under the adviser's management. Position limits also include accounts "acting in concert" to accumulate a position. SAMCO (or its clearing firm or other firm executing transactions on its behalf) has systems to prevent entry of orders that would violate position limits.

Some qualified hedge strategies and positions are exempt from position limits, including a delta hedging exemption for FINRA members and non-member affiliates. The designated supervisor is responsible for applying the Permitted Pricing Model to all positions in or relating to the security underlying the relevant options position that are owned or controlled by such member or non-member affiliate and providing FINRA with written certification that SAMCO or its affiliate are using the Permitted Pricing Model and that the affiliate will provide immediate notice to SAMCO if it ceases to hedge stock positions; SAMCO is responsible for carrying all option positions relying on the exemption.. SAMCO is responsible for reporting any positions. [FINRA Rule 2360(b)(A)(vii)]

The designated operations supervisor is responsible for identifying positions that exceed allowable limits under SRO rules. When a position limit violation is identified, the SRO will be notified as required by rule and the customer will be notified and asked to reduce the position to within the permitted levels.

16.6.3 Liquidation Of Positions And Restrictions On Access

[FINRA Rule 2360(b)(6)]

When FINRA determines that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position in option contracts covering any underlying security or index in excess of position limits, it may direct a member or all members carrying a position in option contracts covering such underlying security or index for such person or persons to liquidate such position or positions, or portions thereof, as expeditiously as possible and consistent with the maintenance of an orderly market, to bring such person or persons into compliance with the position limits. When directed by FINRA, SAMCO will liquidate positions and will not permit such person or persons to execute an opening transaction and will not accept and/or execute for any person or persons named in such directive, any order for an opening transaction in any option contract, unless in each instance express approval is given by FINRA, the directive is rescinded, or the directive specifies another restriction appropriate under the circumstances.

FINRA will notify the subject person or persons who have the right to appeal the decision.

16.6.4 Exercise Of Options

[FINRA Rule 2360(b)(4) and 2360(b)(23)(A)(ii), (vi), and (ix)]

The exercise of options is subject to regulatory rules; the method used for exercising options is disclosed on SAMCO's option agreement.

The following records will be retained by the designated supervisor regarding exercise of options:

- Memorandums of exercise instructions received from customers showing the time the instruction was received

- Memorandum if SAMCO receives and acts on exercise instructions after set cut-off times because of some unusual circumstances (including the details explaining the exception), as required under option rules

The designated supervisor is responsible for ensuring the exercise of options does not exceed limitations specified in options rules. If SAMCO has reason to believe someone acting alone or in concert with others has exceeded or is attempting to exceed position or exercise limits, SAMCO will promptly contact FINRA.

The exercise cut-off is established by regulators or SAMCO may establish an earlier time which is communicated to customers trading options. Exercise instructions will not be accepted after the cut-off time. Submission of exercise instructions may be submitted electronically in which case the instructions will include an electronic record of the time it is submitted to comply with the cut-off time. If not submitted electronically, a manual record will be maintained of the time when the exercise instructions are submitted. Mistakes or errors in submitted exercise instructions will be reviewed and resolved by Operations (at SAMCO or its clearing firm).

16.6.4.1 Tendering Procedures

[FINRA Rule 2360(b)(A)(ii), (vi), and (ix)]

Special procedures apply to the exercise of standardized equity options on the last business day before their expiration ("expiring options"). Unless waived by The Options Clearing Corporation, expiring standardized equity options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under The Options Clearing Corporation Rule 805. This Rule provides that, unless contrary instructions are given, standardized equity option contracts that are in-the-money by specified amounts are automatically exercised. In addition to The Options Clearing Corporation rules, the following FINRA requirements apply with respect to expiring standardized equity options. Option holders desiring to exercise or not exercise expiring standardized equity options must either:

- take no action and allow exercise determinations to be made in accordance with The Options Clearing Corporation's Ex-by-Ex procedure where applicable; or
- submit a "Contrary Exercise Advice" by the deadline.

For both customer and proprietary positions (as well as positions of other firms where SAMCO has accepted responsibility to exercise options), SAMCO is responsible for confirming that final exercise decisions are properly indicated to the relevant national options exchange with respect to such positions. SAMCO may establish a cut-off time prior to FINRA's specified cut-off.

The filing of a final exercise decision, exercise instruction, exercise advice, Contrary Exercise Advice or Advice Cancel does not serve as a substitute to the effective notice required to be submitted to The Options Clearing Corporation for the exercise or non-exercise of expiring standardized equity options.

16.6.5 Adjustments In Terms Of Options

The number of shares underlying an option contract and/or the exercise price are subject to adjustments by the Options Clearing Corporation when the underlying shares are subject to dividends (other than cash dividends), distributions, stock splits, recapitalization, or reorganization. Branches are notified and RRs should advise customers who hold option positions in the affected security.

16.6.6 Branch Copies Of Account Information And Statements

[FINRA Rule 2360(b)(17)(B)]

For all accounts trading options, each branch office servicing the account and the principal supervisory office having jurisdiction over the branch office will retain copies of background and financial information for approved options accounts and customer statements for the prior 6 months. These records may be in electronic format if readily accessible and promptly retrievable.

16.7 Option Complaints

[FINRA Rule 2360(b)(17)(A)]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor• Compliance
Resources	<ul style="list-style-type: none">• Incoming correspondence• Written complaints
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Immediately provide the original of any written complaint to Compliance• Retain a copy of the complaint for branch files• Compliance (<i>in consultation with the branch manager</i>) will respond to the complaint
Record	<ul style="list-style-type: none">• Copy filed in branch Option Complaints file• For branch offices that report to an OSJ in another location, the OSJ will retain copies of complaints for branch offices under their supervision• Compliance retains SAMCO's central complaint files including:<ul style="list-style-type: none">○ identification of complainant;○ date complaint received;○ identification of RR servicing the account;○ general description of the matter complained of; and○ a record of what action, if any, was taken with respect to the complaint

RRs are required to notify their supervisor when a complaint is received. All written option complaints are to be forwarded to Compliance immediately upon receipt.

16.8 Option Communications With The Public

[FINRA Rule 2210 and 2220]

Requirements for options communications (including electronic communications) include the following, which are explained in more detail below:

- The rules governing retail communications, institutional communications and correspondence apply to options communications. Refer to the chapter *COMMUNICATIONS WITH THE PUBLIC* for more information about these policies.
- Retail communications (communications distributed to more than 25 retail investors) require supervisory approval **prior to** distribution.
- Institutional communications (for institutions only) do not require prior approval and are subject to review consistent with correspondence reviews (see the chapter *COMMUNICATIONS WITH THE PUBLIC*). Institutional communications require review by the designated supervisor.
- All options communications (other than institutional communications) must include a statement that supporting documentation for any claims (including claims on behalf of options

- programs or the options expertise of sales persons); comparisons; recommendations; statistics; or other technical data, will be supplied upon request.
- All advertising requires Compliance approval **prior to** publication.

16.8.1 Definitions

Retail investor: includes any person other than an institutional investor, regardless of whether the person has an account with SAMCO.

Institutional investor: See the definition in the chapter *COMMUNICATIONS WITH THE PUBLIC*.

Retail communication: includes **any** written communication (including advertising, telemarketing and other sales scripts and other written communications) that is published, distributed or made available to **more than** 25 retail investors within any 30 calendar-day period.

Institutional communication: includes written communications that are distributed or made available only to institutional investors.

Correspondence: Includes any written communication that is distributed or made available to 25 **or fewer** retail investors within any 30 calendar-day period.

Options [FINRA Rule 2360(a)(20)]: 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 not including 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.

Options Disclosure Document (ODD) [FINRA Rule 2360(a)(12)]: The options-market document containing explanatory information relating to the mechanics of buying, writing and exercising options; the risks involved; and other required information about options. The ODD must be provided to all options customers and provided with certain options communications.

Public appearance: Any participation in a seminar, forum (including an interactive electronic forum), radio, television or print media interview, or other public speaking activity, or the writing of a print media article, concerning options.

Standardized Option: Any options contract issued, or subject to issuance, by The Options Clearing Corporation, that has standardized terms for the strike price, expiration date, and amount of the underlying security, and is traded on a national securities exchange registered pursuant to section 6(a) of the Securities Act.

16.8.2 Option Content Standards

- All options communications (other than institutional communications) must include a statement that supporting documentation for any claims (including claims on behalf of options programs or the options expertise of sales persons); comparisons; recommendations; statistics; or other technical data, will be supplied upon request.
- All options communications (other than institutional communications) must include a statement that options are not suitable for all investors.
- Communications including historical and/or performance figures or projections must be preceded or accompanied by the Options Disclosure Document (ODD). For historical performance projections, specific guidelines apply [see FINRA Rule 2220(d)(3) and (4)].

16.8.2.1 Worksheets

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance
Resources	<ul style="list-style-type: none"> • Worksheet templates

	<ul style="list-style-type: none"> Option worksheets prepared by RRs
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Compliance: approve templates for use Designated Supervisor: <ul style="list-style-type: none"> Ensure RRs use only Firm-approved templates Review and approve worksheet templates
Record	<ul style="list-style-type: none"> Compliance: approved templates Designated Supervisor: Copies of worksheets provided to customers including initials and date of review

Only pre-approved templates may be used for preparing worksheets. Completed worksheets must be provided to the designated supervisor for review and retention.

16.8.3 Correspondence

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Outgoing correspondence
Frequency	<ul style="list-style-type: none"> Daily
Action	<ul style="list-style-type: none"> Review to ensure appropriate language and options disclosure document is provided including the required content statement
Record	<ul style="list-style-type: none"> Initials on outgoing correspondence Retained in branch correspondence files

All correspondence (written or electronic) is subject to the general requirements of truthfulness and avoidance of language that includes promises of specific results, exaggerated or unwarranted claims. Written communications should avoid hedge clauses which disclaim responsibility for the content of such literature or for opinions included or which are inconsistent with the communication. Statements suggesting the certain availability of a secondary market for options may not be made.

Written communications regarding options should include the following:

- special risks of options and the complexities of certain strategies
- a statement that options are not suitable for all investors
- statements referring to potential opportunities should be balanced by a statement of corresponding risks

Written communications, other than advertising that meets the requirements of SEC Rule 134, must be preceded or accompanied by the options disclosure document.

16.8.4 Communications Regarding Standardized Options Prior To Delivery Of The ODD

Prior to providing the ODD, communications are limited to a brief description of options including a statement that identifies the registered clearing agency for options and a brief description of the

general attributes and method of operation of the option exchanges including a discussion of how an option is priced. Such pre-ODD communications must include contact information for obtaining a copy of the ODD and must not contain recommendations or past or projected performance figures including annualized rates of return or the names of specific securities. They may include statements required by state law and administrative authority and may include advertising designs and devices, providing such material is not misleading.

16.8.5 Seminars And Public Presentations

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Compliance
Resources	<ul style="list-style-type: none"> • Outlines for proposed seminars or public presentations that include options including sales material to be distributed • Tapes of radio, TV, newspaper articles, or other public media presentations
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Designated Supervisor: review presentation and related sales materials and refer to Compliance for review and approval • Compliance: <ul style="list-style-type: none"> ○ Pre-approve radio, TV, newspaper or other public media presentation ○ Review seminars or other presentations and sales material; approve or disapprove
Record	<ul style="list-style-type: none"> • Compliance: record of presentation and sales material; copies of written materials or tapes of public media presentations; approval/disapproval • Designated Supervisor: <ul style="list-style-type: none"> ○ Copy of presentation and sales material ○ Record of approval/disapproval ○ List of attendees ○ Confirmation that attendees were provided options disclosure documents

Prior to conducting a seminar or other public presentation regarding options, the outline of the presentation should be provided to the designated supervisor for review. Seminar scripts, handouts, slides, or other visual presentations must be pre-approved and are deemed to be sales literature. All who attend the public presentation should be provided the current options disclosure document. A list of those who attended and received the disclosure document should be prepared and include the date of the meeting.

Appearances in public media (radio, TV, newspapers, other) require the prior approval of Compliance and copies of written material or tapes of the presentation must be provided to Compliance including where published/presented and the type of media (name of newspaper, radio/TV station, other) and date of the appearance or publication.

16.8.6 Filing Requirements

[FINRA Rule 2220(c)]

Responsibility	<ul style="list-style-type: none"> • Compliance
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Resources	<ul style="list-style-type: none"> Proposed communications subject to filing
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Review communication and make necessary changes Submit communication to FINRA for approval at least 10 calendar days prior to first use Communicate approval or disapproval to originator of the communication
Record	<ul style="list-style-type: none"> Copies of communications with FINRA approval/disapproval and contact with originator regarding permissible use or restriction on use

Communications that are likely to be widely disseminated such as advertisements, sales literature, and independently prepared reprints are subject to filing with FINRA at least ten calendar days prior to use. If changed or disapproved by FINRA, the originator of the communication will be notified, and the communication will be withheld from distribution until resubmitted to FINRA and approved by them.

Filing with FINRA is not required:

- if the communication is filed with another regulator with standards comparable to FINRA
- for communications which only reference that options are available from SAMCO
- for the ODD and prospectus
- for targeted communications (such as correspondence) used once the ODD or prospectus has been delivered

16.9 OTC Options (Non-Standardized Options)

ROP approval is required prior to writing OTC non-standardized options. Margin requirements may vary from standardized options.

16.10 Discretionary Options Accounts

[FINRA Rule 2360(b)(18) and 4512(a)(3)]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor Compliance
Resources	<ul style="list-style-type: none"> Discretionary Account Agreement Order records Daily Transaction Report Customer monthly transaction records
Frequency	<ul style="list-style-type: none"> Daily (<i>order records and Daily Transaction Report</i>) Monthly (<i>customer transaction records</i>)
Action	<ul style="list-style-type: none"> When requested, approve (<i>or disapprove</i>) account specifically for

	<p>options discretion and submit to Compliance for required secondary approval</p> <ul style="list-style-type: none"> • Review option accounts monthly for: <ul style="list-style-type: none"> ◦ Marking of discretion exercised or not exercised ◦ Appropriateness of transactions • Take corrective action, as necessary, which may include: consulting with the RR, Compliance, and/or the customer; review of additional customer records (e.g., new account information); consider added education or disciplinary action for the RR, in consultation with Compliance
Record	<ul style="list-style-type: none"> • Discretionary account agreements • Designated supervisor's signature and date approved • Compliance signature and approval • Initials on order records and Daily Transaction Report including notes of action taken • Initials on customer monthly transaction records including notes of action taken

Discretionary accounts are subject to the same requirements outlined in the chapter *ACCOUNTS* in the section *Discretionary Accounts*. The following additional requirements apply:

- The customer must sign a written authorization specifically authorizing option trading in the customer's account.
- A record must be maintained of the manual signature of each named, natural person authorized to exercise discretion in the account.
- The account must be approved for discretion by the designated supervisor **and** Compliance prior to using discretion.
- All discretionary option orders must include a notation of whether discretion was exercised or not exercised.

17 MUNICIPAL SECURITIES

This chapter describes requirements that apply to municipal securities. Rule references (*i.e.*, G-3) refer to Municipal Securities Rulemaking Board (MSRB) rules, unless otherwise noted.

17.1 Administration And Operations

17.1.1 Fees And Assessments

[MSRB Rule A-12, A-13 and A-14]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Data regarding inter-dealer sales transactions in municipal securities and municipal underwriting activity (MSRB Rule A-13)• MSRB Rule A-14 regarding annual fee
Frequency	<ul style="list-style-type: none">• Inter-dealer transactions and underwriting assessments as required• Annual fee - annually by October 31
Action	<ul style="list-style-type: none">• Calculate and pay inter-dealer transaction and underwriting assessment fees• Pay annual fee for receipt by the MSRB by October 31
Record	<ul style="list-style-type: none">• Records of all assessment and fee payments are retained in files by respective subject.

The designated supervisor is responsible for reporting required information and paying assessment fees to the MSRB. The designated supervisor is also responsible for paying the annual fee to the MSRB.

17.1.2 Municipal Securities Representatives

[MSRB Rule G-3]

Municipal Securities Representatives qualify by completing the Series 52 examination and may engage in a wide range of transactions in municipal securities including sales, trading, underwriting, and other non-supervisory municipal activities.

17.1.3 Municipal Securities Sales Limited Representative

[MSRB Rule G-3; MSRB Notice 2011-62]

The Municipal Securities Sales Limited Representative may qualify by completing the Series 7 examination and is limited exclusively to customer sales and purchases of municipal securities and may not engage in other municipal activities such as trading or underwriting. For offices where RRs are qualified as Sales Limited Representatives, the designated supervisor is responsible for determining that those RRs do not exceed the limited activities permitted under this registration status.

17.1.4 Apprentices

[MSRB Rule G-3]

Individuals who have not previously qualified as municipal securities representatives are required to complete a 90-day "apprenticeship" period during which the individual is prohibited from soliciting or transacting business with the public. This includes a prohibition against soliciting new accounts on behalf of SAMCO. In addition, apprentices may not be compensated from transactions in municipal securities.

The designated supervisor to whom the apprentice reports is responsible for ensuring apprentices do not solicit or transact business with the public. Compensation to the apprentice will not include remuneration from transactions in municipal securities.

17.1.5 Municipal Securities Sales Supervisors

[MSRB Rule G-3]

Individuals who complete the Series 8 General Securities Sales Supervisor examination or the Series 24 General Securities Principal examination are qualified as municipal securities sales supervisors. Supervision is limited to sales of municipal securities to customers.

17.1.6 Municipal Securities Principals

[MSRB Rule G-3]

The Series 53 examination qualifies individuals for the registration status of municipal securities principal which permits the individual to supervise all aspects of SAMCO's municipal business. Qualified municipal principals will be designated to supervise the areas of underwriting, trading, and pricing of inventories.

17.1.7 Financial And Operations Principal

[MSRB Rule G-3]

SAMCO will designate a financial and operations principal as required under MSRB rules.

17.1.8 General Securities Principals (Series 24)

[MSRB Notice 2011-62]

Individuals with General Securities Principal (Series 24 examination) qualification are limited in what municipal securities activities they may supervise. Those qualified as a General Securities Principal are limited to supervising books and records [G-27(c)(i)(E)], review and approval of the opening of customer accounts [G-27(c)(i)(G)(1)], oversee the gathering of information on associated persons [G-7(b)], and approval of advertising [G-21(f)]. A General Securities Principal may not supervise and review customer transactions, handling customer complaints, or correspondence related to municipal securities. He/she also may not supervise the processing of municipal securities transactions including trade reporting to the MSRB.

17.1.9 Non-Registered Employees

[MSRB Rule G-3]

Employees who are not registered are limited to clerical and ministerial functions when contacting public customers including:

- the recording and transmission of orders through normal channels;
- the reading of approved quotations; and,
- the giving of reports of transactions.

Non-registered employees, including apprentices, are not permitted to solicit new accounts on behalf of SAMCO. The designated supervisor to whom the non-registered employee reports is responsible for reasonably ensuring the employee does not exceed the limitations listed above.

17.1.10 Offices

[MSRB Rule G-27(b)(iii) and G-27(g)]

Compliance is responsible for identifying offices, where municipal business is conducted, and identifying designated supervisors. Designations are included in the chapter *DESIGNATION OF SUPERVISORS AND OFFICES*. The designation of supervisors will consider the following:

- Retail sales or other activities involving public contact with respect to municipal securities
- A substantial number of RRs conduct municipal securities activities at, or are otherwise supervised from, the location
- The location is geographically distant from another municipal OSJ
- RRs are geographically dispersed
- Municipal activities at a location are diverse and/or complex

Office designations include offices of municipal supervisory jurisdiction, branch offices, and other offices as defined in the Rule. MSRB rule definitions track FINRA's office definitions; refer to the chapter *OFFICES* for detailed information about types of offices.

17.1.11 Notifications To MSRB

[MSRB Rule A-15]

Compliance will notify the MSRB in writing if SAMCO ceases to engage in business activities either voluntarily or because of being barred or suspended by a regulator from engaging in securities activities.

Compliance will also promptly notify the MSRB of any change in name or address.

17.1.12 Anti-Money Laundering Program

[MSRB Rule G-41]

SAMCO has established an anti-money laundering program which is described in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*.

17.1.13 Fidelity Bonding Requirements

[MSRB Rule G-6]

The designated supervisor is responsible for arranging, maintaining, and verifying the adequacy of appropriate fidelity bond coverage.

17.1.14 Books And Records

[MSRB Rule G-8 and G-9]

SAMCO complies with MSRB Rules G-8 and G-9 by maintaining and preserving records in accordance with '34 Act Rules 17a-3 and 17a-4 [see *MSRB Rule G-8(f)* and *Rule G-9(g)*]. In addition, SAMCO maintains municipal records specifically identified in G-8 subparagraph (a)(iv)(D); paragraph (a)(viii); and paragraphs (a)(xi) through (a)(xxii).

Procedures on books and records are included in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*.

17.1.15 Confirmations

[MSRB Rule G-15]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Confirmations or available reports
Frequency	<ul style="list-style-type: none"> Monthly
Action	<ul style="list-style-type: none"> Review a sampling of confirmations to determine whether required information is included Where omissions are found: <ul style="list-style-type: none"> Have corrected confirmations issued Confirm whether the problem is systemic or human error If systemic, contact the appropriate supervisor to make corrections to the system If human error, notify the person responsible of the problem and provide added training, if necessary If SAMCO relies on its clearing firm to issue confirmations, contact the appropriate person at the clearing firm to issue correct confirmations and to correct the problem
Record	<ul style="list-style-type: none"> Review of confirmations including notation of omissions found, corrective action taken If a clearing firm is involved, documentation of who was contacted and what corrective action will be taken

The FINOP is responsible for establishing procedures regarding the preparation and transmission of customer confirmations, including information required under MSRB Rule G-15.

17.1.16 Control Relationships

[MSRB Rule G-22]

A "control relationship" exists when SAMCO 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, SAMCO 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.

In addition, for discretionary accounts, discretion may not be exercised for a transaction in a security subject to a control relationship. The customer must specifically authorize the transaction before it is entered.

17.1.17 Disclosure Of Interest In Distribution

[SEC Securities Exchange Act of 1934 Rule 15c1-6]

Rule 15c1-6 of the Securities Exchange Act of 1934 specifies requirements for disclosures when SAMCO is involved in a primary or secondary distribution of municipal securities. SAMCO will provide the required disclosure on or with the customer's confirmation of a transaction in the subject securities.

17.1.18 Reciprocal Dealings

[MSRB Rule G-31]

SAMCO and its employees are prohibited from soliciting municipal transactions from accounts for investment companies in return for sales of shares in the investment company.

17.1.19 Use Of Ownership Information

[MSRB Rule G-24]

SAMCO is prohibited from using information regarding the owners of municipal securities obtained in a fiduciary or agency capacity (*i.e.*, as paying agent, transfer agent, registrar, indenture trustee, safekeeping agent, correspondent of another municipal dealer, *etc.*) for the purpose of soliciting purchases, sales or exchanges of municipal securities. SAMCO is also prohibited from using the information for financial gain except with the consent of the issuer or other broker or dealer or the person on whose behalf the information was given.

17.1.20 Customer Account Transfers

[MSRB Rule G-26]

17.1.20.1 Transferring Firm Accounts To Another Firm

When a customer wishes to transfer an entire account to another broker-dealer and presents a properly-executed transfer notification, the account will be transferred in accordance with the requirements of MSRB Rule G-26 and other regulators' applicable requirements either by SAMCO or a clearing firm, if applicable.

17.1.20.2 Transferring An Account From Another Firm

For transfers to SAMCO from another broker-dealer, operations personnel should be consulted for instructions on completing transfer instructions which will be submitted to the carrying broker-dealer.

17.1.21 Transactions For Employees Of Other Municipal Dealers

[MSRB Rule G-28]

When an account is opened for the employee of another municipal dealer, SAMCO is obligated to notify the other dealer, in writing, and send confirmations and statements to the other dealer. The RR is responsible for identifying on new account documentation that the customer is employed by another broker-dealer. The RR is responsible for sending written notice to the other firm and coding the account for duplicate confirmations and statements to the other firm.

This requirement does not apply if the account for the employee of the other municipal dealer is limited to transactions in municipal fund securities.

17.1.22 Written Supervisory Procedures

[MSRB Rule G-27(c)]

SAMCO has established and maintains written supervisory procedures including regular review for changes and updates. Procedures regarding the review, maintenance, and updating of written procedures are included in the chapter *SUPERVISORY SYSTEM, CONTROLS AND PROCEDURES*.

17.1.23 Electronic Mail Contact

[MSRB Rule G-40]

SAMCO has filed Form G-40 with the MSRB and maintains an Internet mail account to permit communication with the MSRB. A primary Electronic Mail Contact who is a registered municipal securities principal (Series 51- or Series 53-registered) has been designated. SAMCO may also designate an "Optional Contact" as a secondary electronic contact person who is not required to be registered as a municipal securities principal.

The MSRB will be notified of changes to contact information within 30 days of a change. Contact information will be reviewed annually within 17 business days after the end of the calendar year and contact information will be provided to the MSRB within 15 days of their request.

17.2 Sales Of Municipal Securities

[MSRB Notice 2009-42; FINRA Regulatory Notice 09-35]

This section outlines requirements when selling municipal securities, particularly to retail customers.

17.2.1 Conduct Of Municipal Securities Business

[MSRB Rule G-17; MSRB Notice 2007-17]

It is SAMCO's policy to deal fairly with all persons. Deceptive, dishonest, or unfair practices are prohibited.

17.2.2 Suitability

[MSRB Rule G-19; MSRB Notice 2010-37; FINRA Regulatory Notice 10-41]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Daily Transaction Report• Customer Monthly Statements
Frequency	<ul style="list-style-type: none">• Daily (order tickets and Daily Transaction Report)• Semi-annually (Customer Monthly Statements)
Action	<ul style="list-style-type: none">• Review municipal transactions for suitability with particular consideration of:<ul style="list-style-type: none">○ Non-rated issues○ Long-term bonds [>10 years to maturity]

Record	<ul style="list-style-type: none"> • Initials on order records and Daily Transaction Report
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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. Changes to customer suitability information should be made by amending existing new account information or submitting a new form.

RRs are required to have a reasonable basis to believe recommendations are suitable based both on information available from the issuer and on the facts disclosed or otherwise known about the customer.

17.2.2.1 Non-Rated Municipal Securities

Non-rated municipal securities may represent a higher level of risk to the investor. RRs should discuss the risks of purchasing non-rated bonds when such bonds are recommended for purchase. Risks may include less liquidity; more price volatility; and higher risk of default. As required by MSRB Rule G-15, customer confirmations include a disclosure when a municipal security is not rated.

17.2.2.2 Sophisticated Municipal Market Professionals (SMMPs)

[MSRB Rule G-17 Interpretation]

Suitability obligations differ for institutional customers that are "sophisticated" and capable of making their own suitability determinations. The MSRB interpretation defines an SMMP as an institutional customer of a dealer that:

- the dealer has a reasonable basis to believe is capable of evaluating investment risks and market value independently, both in general and with regard to particular transactions in municipal securities (considering the amount and type of municipal securities owned or under management); and
- affirmatively indicates that it is exercising independent judgment in evaluating the recommendations of the dealer. Affirmation may be made through the Institutional Suitability Certificate.

"Institutional investor" is defined in MSRB Rule G-8(a)(xi) as the account of (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) an investment adviser registered either with the Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (iii) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

The following describes how SMMPs are treated differently from other customers under specific MSRB rules. Refer to the interpretation for more explanation of these specific applications of the SMMP concept.

Rule G-17	The dealer may provide material information from established industry sources whether the transaction is recommended or non-recommended.
Rule G-18	If a dealer effects non-recommended secondary market transactions for SMMPs and its services have been explicitly limited to providing anonymity, communication, order matching, and/or clearance functions and the dealer does not exercise discretion, the dealer is not required to take further actions on individual transactions to ensure that its agency transactions are effected at a fair and reasonable price.
Rule G-19	For a recommended security, the dealer is not required to make a suitability determination.

Rule G-13	If an SMMP makes a "quotation" and it is labeled as such, then it is presumed not to be a quotation made by the dealer; the dealer is held to the same standard as if it were disseminating a quotation made by another dealer.
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17.2.3 Minimum Denominations

[MSRB Rule G-15 and G-17]

SAMCO may not sell municipal securities to customers below the minimum denomination for securities issued after June 1, 2002, with limited exceptions explained below. In addition, for securities issued on or before June 1, 2002, sales to customers in amounts below the minimum denomination must include a disclosure that the amount is below the minimum denomination and that this may adversely affect the liquidity of the position.

17.2.3.1 Exceptions For Securities Issued After June 1, 2002

There are two limited exceptions to this rule:

- SAMCO may purchase a below-minimum denomination position from the customer provided the customer liquidates his or her entire position.
- SAMCO may sell such a liquidated position to another customer but the purchasing customer must be provided with written disclosure.

17.2.3.2 Written Disclosure

Written disclosure about the potential affect on liquidity will be included on confirmations where a customer buys an amount below the minimum denomination.

If SAMCO determines to provide a separate written disclosure, records of providing the disclosure will be retained by Operations for a minimum of three years.

17.2.4 Disclosures

[SEC Securities Exchange Act of 1934 Rule 15c2-12; MSRB Rule G-17; MSRB Notice 2011-67, 2010-37 and 2009-42; Interpretive Notice Regarding Disclosure of Material Facts dated 3/20/02; Interpretive Notice "Guidance on Disclosure and Other Sales Practice Obligations to Individual and Other Retail Investors in Municipal Securities" dated July 14, 2009; FINRA Regulatory Notice 10-41]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Secondary municipal market transactions
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Review to determine disclosures are determined and provided
Record	<ul style="list-style-type: none"> • Order records including disclosure requirements

RRs are required to disclose material information when effecting municipal security transactions for individual or retail investors whether offered through an underwriting or for secondary market transactions. Rule 15c2-12 of the Securities Exchange Act of 1934 imposes requirements on municipal underwriters to confirm that issuers agree to disclose financial information and certain events regarding municipal securities sold to customers. The MSRB maintains the Electronic

Municipal Market Access system (EMMA) to make information available to the marketplace including official statements, issuer filings, and real-time transaction pricing.

For underwritings, the necessary disclosures will be included in the official statement and supplemented by information from the municipal underwriting area, when necessary. For secondary market transactions (solicited or unsolicited), dealers are obligated to disclose all material facts known to the dealer or that are reasonably accessible to the market through established industry sources. This includes such information available from EMMA, the MSRB's site for disclosing information about municipal issuers. Prior to July 1, 2009 issuers filed information with other repositories including Bloomberg; DPC Data; Interactive Data Pricing; and S & P. From July 1, 2009 forward, EMMA is the sole repository. Simply directing a customer to EMMA or another repository is not sufficient; specific disclosures are required. The level of inquiry for material information will depend on varying factors such as less inquiry for an AAA general obligation bond and more inquiry for a non-rated conduit issue or a more complex security.

The obligation to disclose information for secondary market transactions includes the following:

- Disclosures include a complete description of the security including features that likely would be considered significant by a reasonable investor and facts that are material to assessing the potential risks of the investment (call features, non-standard features that may affect price or yield calculations complex structures, infrequent trading, unusual features, when interest is paid, tax status, *etc.*)
- Disclosures include credit risk and rating including the rating or lack of rating; change of rating; identity of any credit enhancer or liquidity provider; credit rating of the credit provider or liquidity provider; material terms of the credit facility or liquidity facility such as any circumstances under which a standby bond purchase agreement would terminate without a mandatory tender
- Disclosures must be made at the "time of trade" (at or before the point at which the investor and the dealer agree to make the trade)

RRs must note on the order that EMMA or another resource was checked for disclosures and that such disclosures were made to the customer. If an RR becomes aware of **non-public** material information, the RR should contact Compliance immediately and maintain the confidentiality of the information.

17.2.5 Customer Accounts

Customer accounts must be reviewed on a regular basis. The designated supervisor is responsible for reviewing daily transactions as well as patterns of account activity by reviewing monthly statements or comparable reports or electronic records that show cumulative activity. Refer to the chapter *ACCOUNTS* for details of SAMCO's policies regarding supervision of accounts.

The frequency and scope of the account reviews depend on a number of factors which may include the number of transactions in the account; profitability of the account; types of municipal products being purchased or sold; and the experience of the RR handling the account. The review of cumulative account activity should take into consideration suitability of overall recommendations compared to the customer's investment objectives, the volume of activity; patterns of cancelled transactions; and other factors such as complaints.

17.2.6 Complaints

[MSRB Rule G-10 and G-17]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Incoming correspondence• Oral or written complaints

Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Immediately refer original copy of complaint to Compliance Retain copy for branch files Contact Compliance regarding oral complaints, if needed Compliance will respond to the complaint, in consultation with the branch manager
Record	<ul style="list-style-type: none"> Compliance retains all written complaints in a central complaint file Copy of written complaint in branch complaint file

The handling of customer complaints is described in the section *Complaints* in the chapter *COMMUNICATIONS WITH THE PUBLIC*.

Upon receipt of a complaint involving a municipal security, Compliance will send to the customer a copy of the investor brochure designated by the MSRB, and will record the date when the investor brochure was provided.

17.2.7 MSRB Rules

[MSRB Rule G-29]

A copy of the MSRB rules is available in each office where municipal securities business is conducted either in hard copy or by accessing the MSRB's Internet site at www.msrb.org.

17.2.8 529 College Savings Plans (Municipal Fund Securities)

[www.msrb.org]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Plan applications
Frequency	<ul style="list-style-type: none"> When applications are received
Action	<ul style="list-style-type: none"> Include 529 plans in RR training Review applications for suitability including: <ul style="list-style-type: none"> suitability of underlying investments expected duration of the investments tax considerations out-of-state vs. in-state plan benefits and disadvantages Confer with RR if necessary Confer with customer if necessary Take corrective action, if required, which may include advising the RR to make alternative recommendations; canceling a purchase
Record	<ul style="list-style-type: none"> Plan applications Daytimer or other record of review

529 College Savings Plans are higher education savings plans named for Section 529(b) of the Internal Revenue Service Code. Through a 529 Plan, an individual may contribute cash to be invested for the purpose of accumulating savings for qualifying education costs of beneficiaries. Plan investments include pooled investment funds and have features similar to mutual funds or variable annuities.

529 plans established by states or local governmental entities are deemed municipal fund securities subject to MSRB rules. This section addresses requirements for 529 plans that are considered municipal securities.

17.2.8.1 Registration Requirements

The following registrations are required to sell municipal fund securities:

- RRs qualify through a Series 6 or Series 7 examination (Series 6 qualification is limited to municipal fund securities only and not other types of municipal securities).
- To supervise the sale of municipal fund securities, supervisors must have the following principal qualifications:
 - Municipal Securities Principal (Series 53); **or**
 - General Securities Principal (Series 24) prerequisite **and** Municipal Fund Securities Limited Principal (Series 51); **or**
 - Investment Company/Annuity Principal (Series 26) prerequisite **and** Municipal Fund Securities Limited Principal (Series 51).

17.2.8.2 Features Of 529 Plans

General features include the following; specific programs must be reviewed to determine actual features.

- Plan programs are offered by states or other governmental bodies that either oversee plan investments themselves or, more often, hire an outside entity such as a mutual fund company to handle underlying investments.
- The person who establishes a plan for a beneficiary retains control, a form of revocable gift. Plans may also allow a change of beneficiary.
- While plans have cumulative maximum contributions, the limits are usually very high.
- There are no federal taxes on earnings if used for qualifying education expenses.
- Withdrawals that are not used for qualifying educational expenses are subject to Federal taxes as well as a 10% penalty. There may also be state tax implications.
- There is no time limit in many states on when the 529 money must be used.
- Other features vary depending on the state's plan and may include limitations on investment options and ability to change investments and limits on aggregate contributions for all beneficiaries.
- For most state plans, the customer does not have to reside in the state to establish a plan.

17.2.8.3 Disclosures

[MSRB Notice 2006-23, 2006-16 and 2006-07]

There are two primary forms of written disclosure that must be provided to customers when marketing 529 college savings plans. Providing disclosures does not relieve the obligation to make suitable recommendations to the customer.

17.2.8.3.1 Official Statement/Program Disclosure Document

Issuers of 529 plans provide a document to be used in connection with sales of municipal fund securities. This may be an official statement, program disclosure document, information statement, prospectus, or other document provided by the issuer.

17.2.8.3.2 Out-of-State Plans

When marketing out-of-state 529 college savings plans, disclosure will be provided to the customer prior to or at the time of the trade as follows:

1. Depending on the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state may be available only if the customer invests in the home state's 529 college savings plan.
2. State-based benefits should be one of many appropriately weighted factors to be considered in making an investment decision.
3. The customer should consult with his or her financial tax or other adviser about how such state-based benefits would apply to the customer's specific circumstances and may wish to contact his or her home state or any other 529 college savings plan to learn more about their features.

17.2.8.4 NIIDS Filings

[MSRB Notice 2010-19]

The primary distributor of a 529 College Savings Plan is obligated to file Form G-32 and related documents with NIIDS. Supplements must also be submitted on a timely basis. The primary distributor is also obligated to determine that the issuer has undertaken a written agreement to provide the MSRB with information required under MSRB Rule G-32 and SEC Rule 15c2-12.

If SAMCO is the primary distributor of an issue, the designated supervisor is responsible for making the required filings and obtaining the issuer's assurance and for maintaining a record of filings and the assurance.

17.2.8.5 Selling Considerations

When recommending 529 plans, the RR has the obligation to determine the suitability of the recommendation, with particular consideration of the plan's underlying investments. RRs should consider the following when discussing 529 plans with prospective purchasers:

- The customer's investment objectives and the types of underlying investments available.
- Tax implications including Federal and in-state vs. out-of-state tax benefits.
- Penalties on withdrawals not used for qualifying higher education costs.
- Limitations in the plan being considered including changing investments; changing beneficiaries; limits on aggregate contributions; time limits for using plan money; or other limitations.
- Associated costs including expenses, enrollment fees, mutual fund load expenses, and maintenance fees.
- Whether out-of-state customers qualify for a particular plan.

17.2.8.6 529 College Savings Plan Checklist

The RR's designated supervisor must approve transactions where an out-of-state plan or replacement of an existing plan is being recommended. RRs are required to complete the 529 College Savings Plan Checklist and submit it to the designated supervisor prior to effecting the transaction.

17.2.8.7 Sales Material For Municipal Fund Securities

Special requirements apply to sales material for municipal fund securities. In addition to MSRB rule requirements, any municipal fund securities sales material that includes the following information about underlying investment company investments must comply with SEC advertising rules and FINRA Rule 2210:

- performance
- investment objectives or investment strategies
- experience or capabilities of the investment adviser or portfolio manager
- potential benefits or risks

- fees and expenses

17.2.8.8 Advertising Municipal Fund Securities

[SEC Rule 482; MSRB Rule G-21(e)]

The following is a summary of requirements for municipal fund securities advertising. Other conditions apply that are not detailed here. Compliance approval is required prior to publication of any municipal fund advertisement.

Subject	Rule	Requirement
General product advertisement disclosures	G-21(e)(i)	<ul style="list-style-type: none"> • investor considerations • more information available in OS • source of OS is a BD underwriter • read the OS carefully
Product specific advertising disclosures	G-21(e)(i)	<ul style="list-style-type: none"> • source of OS if OS available • home state plan benefits • if a money market fund, no guarantees
Performance disclosures	G-21(e)(i)	<ul style="list-style-type: none"> • legend about past performance doesn't guarantee future performance • if total return quoted is not current, a toll-free number or website where more current information is available • if sales load or nonrecurring fee is charged, maximum amount and if not included in performance statements, disclosure is not included • total annual operating expense ratio (except for money market funds)
Format of disclosure	G-21(e)(i)(4)	Differing requirements for print and other advertising
Generic advertising (does not refer by name to any specific investment option or portfolio but includes name of dealer or other sponsor of the advertisement)	G-21(e)(i)(B)(1)	Does not require general disclosures
Blind advertisements (promote an issuer and its public purpose without naming a product or dealer)	G-21(e)(i)(B)(2)	Does not require general disclosures
Annual financial reports or similar information required by state law, rules, or regulations		Not considered an advertisement if provided solely as required by state laws, rules, or regulations
Communications with existing customers	G-21(e)(i)(B)(3)	Permits form letters that omit some or all required disclosures if sent to

		existing customers who have previously invested in municipal fund securities
Tax-related disclosures	G-21(e)(v)	If a product advertisement discusses tax benefits, include disclosure that benefits may be conditioned on meeting certain requirements and if specific benefits are described, include the factors that may materially limit their availability

17.3 Sponsoring Meetings And Conferences Involving Issuer Officials

[MSRB Notice 2007-13]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Requests to sponsor meetings or conferences where an issuer official will participate
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Review request for sponsorship, including the official's role Approve or disapprove the event Send to the issuer official a letter outlining the prohibitions against soliciting political contributions If, after the event, there is concern about whether contribution solicitations took place, confer with Compliance to review the activity and determine whether a filing is required with the MSRB and a ban on business may result
Record	<ul style="list-style-type: none"> Request and approval or disapproval Letter to issuer official

When SAMCO and/or its employees sponsor a meeting or conference that features an issuer official as a speaker or participant, it is important to avoid activities that could be considered soliciting political contributions for the issuer official. Activities that could be considered solicitation of contributions include (but are not limited to):

- The issuer official solicits contributions at the meeting or conference.
- The issuer uses an attendee list to solicit contributions.

If it is determined that activities constitute solicitation or coordination of political contributions for the participating issuer official, expenses for the meeting or conference may be considered a political contribution reportable to the MSRB and may trigger a ban on business with the issuer for two years.

If an issuer official will participate in a Firm-sponsored meeting or conference, the following are required:

- The content of the meeting and participation by an issuer official (including the official's role) must be approved by a municipal principal.
- The issuer official must be notified in writing by the municipal principal, prior to the meeting or conference, of the prohibition against solicitation of contributions either at the event or afterwards (using the attendee list).

17.4 Communications With The Public

[MSRB Rule G-27]

Communications (electronic or written) require the approval of the designated supervisor. Refer to the chapter *COMMUNICATIONS WITH THE PUBLIC* for detailed procedures.

17.4.1 Performance Data

Communications that include performance data is subject to advertising disclosure requirements and requires the approval of Compliance prior to sending. Refer to the section *Advertising Municipal Fund Securities* for more information.

17.5 Telemarketing

[MSRB Rule G-39]

The sale of municipal securities is subject to telemarketing restrictions including prohibitions against contacting individuals on the National Do-Not-Call Registry.

Refer to the chapter *COMMUNICATIONS WITH THE PUBLIC* and the section *Calling Restrictions* for policies affecting telemarketing.

17.6 Advertising And Sales Literature

[MSRB Rule G-21]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests to advertise • Requests to distribute sales literature • Unapproved advertising/sales literature brought to the Branch Manager's attention
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Refer all requests and unapproved items to Compliance • Compliance will review and approve/disapprove • Compliance will make required FINRA filings for municipal fund securities advertising/sales literature
Record	<ul style="list-style-type: none"> • Compliance retains records of advertising and sales literature including approval/disapproval and, if applicable, record of filing with FINRA municipal fund securities sales material within 30 days of use

All advertising involving municipal securities must be approved by a designated municipal securities principal or general securities principal.

Some of the requirements that apply to advertising of municipal securities include:

- 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.
- Sales material about municipal fund securities may be subject to additional requirements, including filing advertising with FINRA, if it discusses underlying investment company securities. See the section *529 College Savings Plans (Municipal Fund Securities) - Advertising Municipal Fund Securities* for more information.

Compliance should be consulted regarding questions about advertisements and sales material that include municipal securities.

17.7 Supervisory System, Procedures And Controls

[MSRB Rule G-27]

The MSRB has adopted rule requirements that parallel FINRA rule requirements for supervisory controls. Refer to the chapter *SUPERVISORY SYSTEM, PROCEDURES AND CONTROLS* for SAMCO's procedures addressing these requirements.

17.8 Underwriting

[MSRB Rule G-11, G-12, G-17 and G-34; MSRB Notice 2011-52 and 2012-38; Interpretive Notice Regarding Disclosure of Material Facts dated 3/20/02; SIFMA forms: <http://www.sifma.org/Services/Standard-Forms-and-Documents/Municipal-Securities-Markets/>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Agreement with issuers and underwriters, bond counsel information, and other sources of information regarding pending underwritings
Frequency	<ul style="list-style-type: none"> • As required for each underwriting
Action	<ul style="list-style-type: none"> • Conduct necessary reviews • Sign agreement with issuer • Sign underwriting agreement • Review official statements • As senior syndicate manager, comply with MSRB rule requirements regarding running the syndicate including inviting other dealers; preparing the official statement and making it available to purchasers and other dealers; designating and allocating securities; preparing syndicate expense statements and providing notification to syndicate members as required • As sole manager comply with MSRB rule requirements • Confirm priority provisions • As an underwriter of a primary offering subject to disclosure requirements, reasonably determine that the issuer or an obligated person agrees to provide required information to the MSRB within 10 business days of the occurrence of a "listed event"

	<ul style="list-style-type: none"> • As placement agent for a private placement, obtain private placement letters from investors, if applicable • Conduct other activities necessary to complete the underwriting • Provide public material information (that is available internally but not from the official statement or other standard industry sources) to trading and/or sales personnel to meet G-17 obligations regarding required disclosures to customers when effecting municipal transactions
Record	<ul style="list-style-type: none"> • Documents are included in a file for the underwriting • Record of providing internal public information to sales/trading personnel are retained in the underwriting file

SAMCO's obligations are different depending on its role in a municipal underwriting. It assumes a number of responsibilities when acting as senior syndicate manager, sole manager, or as a syndicate member. Some of these responsibilities are summarized in the section *Syndicate Practices* for easy reference.

17.8.1 Due Diligence

[SEC National Exam Risk Alert "Strengthening Practices for the Underwriting of Municipal Securities": <http://www.sec.gov/about/offices/ocie/riskalert-muniduediligence.pdf>]

An underwriter is responsible for conducting due diligence to be able to make a representation that it has reasonable belief in the truthfulness and completeness of the key representations made in any disclosure documents used in the offering. SAMCO will conduct due diligence and document its review in the underwriting file. The following are elements of due diligence conducted by SAMCO.

- Underwriter's counsel generally takes the lead in a public financing in preparing and working with the financing team to produce an offering document (official statement) which meets the standards of the antifraud provisions and Rule 15c2-12.
- The senior or sole underwriter must review a near final official statement (see the section that follows *Obligations When The Firm Acts As Senior Syndicate Manager Or Sole Underwriter*).
- The underwriter must carefully evaluate the likelihood that an issuer or obligated person will comply on a timely basis with its disclosure undertakings (see *Disclosure Requirements*).
- The underwriter should obtain reasonable evidence to determine whether and when annual filings and event notices, under the issuer's or obligated person's disclosure undertakings, were in fact provided.

The SEC has indicated the following non-exclusive factors would be relevant in reasonably assessing the truthfulness of key representations in the final statement:

- the extent to which the underwriter relied on municipal officials and other persons whose duties have given them knowledge of particular facts;
- the role of the underwriter (e.g., manager, syndicate member, selling dealer);
- the type of bonds being offered (general obligation, revenue, or private activity);
- the past familiarity of the underwriter with the issuer;
- the length of time until maturity of the securities; and
- whether the bonds are competitively bid or are distributed in a negotiated offering.

17.8.2 Commitment Approval

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • Commitment Committee (if applicable)
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Resources	<ul style="list-style-type: none"> • Requests for review of potential underwritings
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review proposals • Approve or disapprove or request more information • Notify the banker of the Committee's decision
Record	<ul style="list-style-type: none"> • Information submitted for review • Review for approval • Notification to banker, appropriate supervisor of approval/disapproval

The banker must submit the following (and any other pertinent information) to the designated supervisor for review (and submission to the Commitment Committee, if applicable) for approval prior to committing to an underwriting:

- Materials in response to an issuer request for proposal or qualification to the designated supervisor
- Due diligence checklist
- Due diligence memorandum describing due diligence calls, issues noted and how they were resolved, and the banker's review of the final or "deemed final" OS
- On-site examinations including meetings with municipal officials, visits to facilities and examination of an issuer's records and current economic trends and forecasts bearing on the issuer's ability to pay its debt
- Financial and risk disclosures (the "deemed final" official statement)
- Review of EMMA filings by the issuer (and other data repositories prior to EMMA)

The banker will be notified regarding approval or disapproval of the proposed commitment.

17.8.3 Duties Of Underwriters To Issuers

[Rule G-17 Interpretive Notice Concerning the Application of MSRB Rule G-17 to Underwriters of Municipal Securities; MSRB Notice 2012-38]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Proposed underwritings including related documents, disclosures, information about investors • RFPs • Expenses/compensation related to issue • Expense reports
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Identify Complex Financings and confirm appropriate disclosures are made • Confirm disclosures for other financings are made • Identify potential conflicts of interest and correct or disclose where disclosure is permitted to mitigate the conflict • If there are other transaction participants, such as a conduit borrower, evaluate the participant's role and relationship with SAMCO to determine duties to disclose and other necessary actions to meet

	obligations to the issuer <ul style="list-style-type: none"> • Confirm required disclosures are made within required timeframes • Confirm acknowledgment of disclosures is received or specifically document why acknowledgment was not received • Confirm compensation and pricing are fair for the deal • Confirm orders identified as "retail" are actually retail • Review payments, entertainment, other expenses to the benefit of issuer personnel
Record	<ul style="list-style-type: none"> • Deal file including: <ul style="list-style-type: none"> ○ Identification of Complex Financings ○ Disclosures ○ Evaluation of the role of other transaction participants and steps taken to make disclosures or to take other actions to comply with obligations to issuer ○ Issuer acknowledgment of disclosures ○ Expenses/compensation ○ Disclosure/correction of conflicts ○ Records of retail orders and notations of any corrections as to identification of customer ○ Review of payments to/for issuer personnel

The duties of underwriters to issuers are discussed in more detail in this section and include the following:

- Underwriters have a basic obligation to deal fairly with issuers precluding any deceptive, dishonest, or unfair practice and must not misrepresent or omit the facts, risks, potential benefits, or other material information about municipal securities activities undertaken with the municipal issuer.
- Underwriter disclosures to issuers are required to mitigate potential conflicts of interest.
- Underwriter representations to issuers, whether written or oral, must be truthful and accurate and must not misrepresent or omit material facts.
- Underwriters must have a reasonable basis for representations and other material information contained in documents they prepare, and underwriters must refrain from including representations or other information they know or should know is inaccurate or misleading.
- Responses to requests for proposal (RFP) must (1) fairly and accurately represent the underwriter's capacity, resources, and knowledge to perform the specific underwriting; (2) contain only items that are either within the personal knowledge of those preparing it or confirmed by those with knowledge; and (3) not represent that the underwriter has the requisite knowledge or expertise for the financing unless those who will work on the deal have the necessary knowledge or expertise.
- When other transaction participants are involved (such as a conduit borrower), the underwriter has an obligation to deal fairly with other participants. Underwriter obligations depend on the relationship with the participant and its role in the underwriting.
- Underwriters are prohibited from recommending that the issuer not retain a municipal advisor or otherwise imply that hiring a municipal advisor would be redundant to hiring the underwriter.
- The underwriter's obligations apply to negotiated and not competitive deals (unless noted otherwise) and do not apply to selling group members. The MSRB interpretation of "competitive underwriting" is new issues sold on the basis of the lowest priced bid by potential underwriters and not just where the issuer publishes a request for proposal. The obligations

generally apply to primary offerings by a dealer acting as underwriter as well as placement agent and when serving as primary distributor.

The requirements are extensive. The MSRB Interpretive Notice and Notice 2012-38 should be consulted for further details including examples of underwriter obligations.

17.8.3.1 Disclosures

The following summarizes required disclosures that underwriters must make to issuers. Disclosures must be made in a fair and balanced manner based on the principles of fair dealing and good faith.

There are requirements regarding the timing of disclosures. The MSRB notes that not all issues proceed on the same timeframes. Disclosures should be timed so that the issuer (1) has clarity throughout all substantive stages of a financing regarding the roles of its professionals; (2) is aware of conflicts of interest promptly after they arise and well before the issuer effectively becomes fully committed (either formally or due to having already expended substantial time and effort) to completing the transaction with the underwriter; and (3) has the information required to be disclosed with sufficient time to take such information into consideration before making certain key decisions on the financing.

Underwriter's Role	<p>(i) Municipal Securities Rulemaking Board Rule G-17 requires an underwriter to deal fairly at all times with both municipal issuers and investors;</p> <p>(ii) the underwriter's primary role is to purchase securities with a view to distribution in an arm's-length commercial transaction with the issuer and it has financial and other interests that differ from those of the issuer;</p> <p>(iii) unlike a municipal advisor, the underwriter does not have a fiduciary duty to the issuer under the federal securities laws and is, therefore, not required by federal law to act in the best interests of the issuer without regard to its own financial or other interests;</p> <p>(iv) the underwriter has a duty to purchase securities from the issuer at a fair and reasonable price, but must balance that duty with its duty to sell municipal securities to investors at prices that are fair and reasonable; and</p> <p>(v) the underwriter will review the official statement for the issuer's securities in accordance with, and as part of, its responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the transaction.</p> <p>Disclosures concerning the role of the underwriter and the underwriter's compensation may be made by a syndicate manager on behalf of other syndicate members. Other conflicts disclosures must be made by the particular underwriters subject to such conflicts.</p>
Underwriter Compensation	<p>The underwriter must disclose to the issuer whether its underwriting compensation will be contingent on the closing of a transaction. It must also disclose that compensation that is contingent on the closing of a transaction or the size of a transaction presents a conflict of interest, because it may cause the underwriter to recommend a transaction that is unnecessary or to recommend that the size of the transaction be larger than is necessary.</p>
Other Conflicts Disclosures	<p>(i) any payments described below under Conflicts Of Interest - Payments To Or From Third Parties;</p> <p>(ii) any arrangements described below under Conflicts Of Interest - Profit-</p>

	<p>Sharing With Investors;</p> <p>(iii) the credit default swap disclosures described below under Conflicts of Interest - Credit Default Swaps; and</p> <p>(iv) any incentives for the underwriter to recommend a complex municipal securities financing and other associated conflicts of interest.</p>
Structure Of Issue	<p>(i) The underwriter must provide disclosures on the material aspects of deal structures where the underwriter reasonably believes that issuer personnel lack knowledge or experience with the structure of the deal.</p> <p>(ii) For a complex municipal securities financing (e.g., VRDOs), more particularized disclosures may be needed. The underwriter must disclose the material financial characteristics of the complex financing as well as the material financial risks of the financing that are known to the underwriter and reasonably foreseeable at the time of the disclosure. Also any incentives to recommend the financing and other associated conflicts must be disclosed.</p> <p>(iii) Required level of disclosure varies according to the issuer's knowledge or experience with the proposed financing structures or similar structures, capability of evaluating the risks of the recommended financing, and financial ability to bear the risks of the recommended financing, in each case based on the reasonable belief of the underwriter. In all events, the underwriter must disclose any incentives for the underwriter to recommend the complex municipal securities financing and other associated conflicts of interest.</p>

17.8.3.1.1 Complex Financings

Particular attention should be given to "Complex Financings" which the MSRB defines as a new issue financing that is structured in a unique, atypical, or otherwise complex manner that issuer personnel responsible for the issuance of municipal securities would not be well positioned to fully understand or to assess the implications of the financing in its totality. Examples include VRDOs; financings involving derivatives (such as CDS); and financings in which the interest rate is benchmarked to an index that is commonly used in the municipal market which may be complex to an issuer that does not understand the index or its possible interaction with other indexes.

The MSRB provides the following list of practical factors for identifying Complex Financings (there may be other factors than these):

- Whether the underwriter's internal risk management process for approving an underwriting engagement could be helpful in identifying Complex Financings.
- Whether the particular type of structure or product is handled exclusively by the underwriter's most experienced or specialized professionals.
- Whether the particular type of structure or product gives rise to significant disclosures when assisting the issuer in preparing the official statement.
- Whether a particular feature or other characteristic of the structure or product creates more difficult secondary market pricing determinations as compared to the rest of the marketplace.

Key requirements when a Complex Financing is recommended are:

- Disclosure is only required if the underwriter recommends the Complex Financing.
- Where there is a recommendation, the level of disclosure may vary according to the issuer's knowledge with the structure of the financing and may vary over time depending on the knowledge and experience of issuer personnel.

- The level of disclosure may vary if the issue includes routine elements of financing that issuer personnel understand. Disclosures for complex financings must address specifics and may not be broad and general "boilerplate" disclosures.

Refer to MSRB Notice 2012-38 for specific guidance on VRDO and other disclosures.

17.8.3.1.2 Timing And Manner Of Disclosures Regarding Underwriter's Role; Underwriter Compensation; And Other Conflicts Disclosures

These disclosures must be made in writing to an official of the issuer that the underwriter reasonably believes has the authority to bind the issuer by contract with the underwriter and that, to the knowledge of the underwriter, is not a party to a disclosed conflict.

- Disclosures must be clear and include implications for the issuer.
- The disclosure concerning the arm's-length nature of the underwriter-issuer relationship must be made in the earliest stages of the underwriter's relationship with the issuer with respect to an issue (e.g., in a response to a request for proposals or in promotional materials provided to an issuer).
- Other disclosures concerning the role of the underwriter and the underwriter's compensation generally must be made when the underwriter is engaged to perform underwriting services (e.g., in an engagement letter), not solely in a bond purchase agreement.
- Other conflicts disclosures must be made at the same time, except with regard to conflicts discovered or arising after the underwriter has been engaged. For example, a conflict may not be present until an underwriter has recommended a particular financing. In that case, the disclosure must be provided in sufficient time before the execution of a contract with the underwriter to allow the official to evaluate the recommendation.

17.8.3.1.3 Timing And Manner Of Disclosures Regarding Structure Of Issue

Disclosures regarding the structure of the issue must be made in writing to an official of the issuer whom the underwriter reasonably believes has the authority to bind the issuer by contract with the underwriter (i) in sufficient time before the execution of a contract with the underwriter to allow the official to evaluate the recommendation and (ii) in a manner designed to make clear to such official the subject matter of such disclosures and their implications for the issuer. The disclosures concerning a complex municipal securities financing must address the specific elements of the financing, rather than being general in nature. If the underwriter does not reasonably believe that the official to whom the disclosures are addressed is capable of independently evaluating the disclosures, the underwriter must make additional efforts reasonably designed to inform the official or its employees or agent.

17.8.3.1.4 Acknowledgment Of Disclosures

The underwriter must attempt to receive written acknowledgement (other than by automatic e-mail receipt) by the official of the issuer of receipt of the foregoing disclosures. If the official of the issuer agrees to proceed with the underwriting engagement after receipt of the disclosures but will not provide written acknowledgement of receipt, the underwriter may proceed with the engagement after documenting with specificity why it was unable to obtain such written acknowledgement.

17.8.3.1.5 Issuer Disclosure Documents

Underwriters often play an important role in assisting issuers in the preparation of disclosure documents, such as preliminary official statements and official statements. These documents are critical to the municipal securities transaction, in that investors rely on the representations contained in such documents in making their investment decisions. Moreover, investment professionals, such as municipal securities analysts and ratings services, rely on the representations in forming an opinion regarding the credit. A dealer's duty to have a reasonable basis for the representations it makes, and other material information it provides, to an issuer and to ensure that such representations and information are accurate and not misleading, as described above, extends to representations and information provided by the underwriter in connection with the preparation by the issuer of its disclosure documents (e.g., cash flows).

17.8.3.2 Excessive Compensation

An underwriter's compensation for a new issue (including both direct compensation paid by the issuer and other separate payments, values, or credits received by the underwriter from the issuer or any other party in connection with the underwriting), in certain cases and depending upon the specific facts and circumstances of the offering, may be so disproportionate to the nature of the underwriting and related services performed as to constitute an unfair practice with regard to the issuer that it is a violation of Rule G-17. Among the factors relevant to whether an underwriter's compensation is disproportionate to the nature of the underwriting and related services performed are the credit quality of the issue, the size of the issue, market conditions, the length of time spent structuring the issue, and whether the underwriter is paying the fee of the underwriter's counsel or any other relevant costs related to the financing.

17.8.3.3 Fair Pricing

The duty of fair dealing under Rule G-17 includes an implied representation that the price an underwriter pays to an issuer is fair and reasonable, taking into consideration all relevant factors, including the best judgment of the underwriter as to the fair market value of the issue at the time it is priced. In general, a dealer purchasing bonds in a competitive underwriting for which the issuer may reject any and all bids will be deemed to have satisfied its duty of fairness to the issuer with respect to the purchase price of the issue as long as the dealer's bid is a bona fide bid (as defined in Rule G-13) that is based on the dealer's best judgment of the fair market value of the securities that are the subject of the bid. In a negotiated underwriting, the underwriter has a duty under Rule G-17 to negotiate in good faith with the issuer. This duty includes the obligation of the dealer to ensure the accuracy of representations made during the course of such negotiations, including representations regarding the price negotiated and the nature of investor demand for the securities (e.g., the status of the order period and the order book). If, for example, the dealer represents to the issuer that it is providing the "best" market price available on the new issue, or that it will exert its best efforts to obtain the "most favorable" pricing, the dealer may violate Rule G-17 if its actions are inconsistent with such representations.

17.8.3.4 Conflicts Of Interest

The following are potential conflicts of interest some of which are mitigated by disclosure and others by diligence in complying with requirements or avoiding conflicts.

17.8.3.4.1 Payment To Or From Third Parties

In certain cases, compensation received by the underwriter from third parties, such as the providers of derivatives and investments (including affiliates of the underwriter), may represent a conflict of interest. An underwriter should disclose to the issuer the existence of payments, values, or credits received by the underwriter in connection with its underwriting of the new issue from parties other than the issuer, and payments made by the underwriter in connection with such new issue to parties other than the issuer (in either case including payments, values, or credits that relate directly or indirectly to collateral transactions integrally related to the issue being underwritten). The amount of such third-party payments is not required to be disclosed. The underwriter must disclose to the issuer whether it has entered into any third-party arrangements for the marketing of the issuer's securities.

17.8.3.4.2 Profit-Sharing With Investors

Arrangements between the underwriter and an investor purchasing new issue securities from the underwriter (including purchases that are contingent upon the delivery by the issuer to the underwriter of the securities) according to which profits realized from the resale by such investor of the securities are directly or indirectly split or otherwise shared with the underwriter also would, depending on the facts and circumstances (including in particular if such resale occurs reasonably close in time to the original sale by the underwriter to the investor), constitute a violation of the underwriter's fair dealing obligation under Rule G-17. Such arrangements could also constitute a violation of Rule G-25(c), which precludes a dealer from sharing, directly or indirectly, in the profits or losses of a transaction in municipal securities with or for a customer.

17.8.3.4.3 Credit Default Swaps

The issuance or purchase by a dealer of credit default swaps for which the reference is the issuer for which the dealer is serving as underwriter, or an obligation of that issuer, may pose a conflict of interest, because trading in such municipal credit default swaps has the potential to affect the pricing of the underlying reference obligations, as well as the pricing of other obligations brought to market by that issuer. The dealer must disclose the fact that it engages in such activities to the issuers for which it serves as underwriter. Activities with regard to credit default swaps based on baskets or indexes of municipal issuers that include the issuer or its obligation(s) need not be disclosed, unless the issuer or its obligation(s) represents more than 2% of the total notional amount of the credit default swap or the underwriter otherwise caused the issuer or its obligation(s) to be included in the basket or index.

17.8.3.5 Retail Order Periods

An underwriter that has agreed to underwrite a transaction with a retail order period is required to honor the agreement. A dealer that wishes to allocate securities in a manner that is inconsistent with an issuer's requirements must not do so without the issuer's consent. In addition, Rule G-17 requires an underwriter that has agreed to underwrite a transaction with a retail order period to take reasonable measures to ensure that retail clients are bona fide. An underwriter that knowingly accepts an order that has been framed as a retail order when it is not (e.g., a number of small orders placed by an institutional investor that would otherwise not qualify as a retail customer) would violate Rule G-17 if its actions are inconsistent with the issuer's expectations regarding retail orders. In addition, a dealer that places an order that is framed as a qualifying retail order but in fact represents an order that does not meet the qualification requirements to be treated as a retail order (e.g., an order by a retail dealer without "going away" orders from retail customers, when such orders are not within the issuer's definition of "retail") violates its Rule G-17 duty of fair dealing.

17.8.3.6 Dealer Payments To Issuer Personnel

MSRB Rule G-20 governs gifts, gratuities, and non-cash compensation, and Rule G-17 addresses certain payments made to, and expenses reimbursed for issuer personnel during the municipal bond issuance process. Payments made in regard to expenses of issuer personnel in the course of the bond issuance process, including in particular, but not limited to, payments for which SAMCO seeks reimbursement from bond proceeds or issuers, must comply with the requirements of Rule G-20. Excessive or lavish travel, meal, lodging and entertainment expenses in connection with an offering (such as may be incurred for rating agency trips, bond closing dinners, and other functions) that benefit issuer personnel may violate the Rule.

17.8.4 Issuer Continuing Disclosures

[SEC Securities Exchange Act of 1934 Rule 15c2-12; MSRB Rule G-32]

SEC Rule 15c2-12 imposes obligations on municipal firms that act as underwriters and remarketing agents to ensure that issuers and borrowers have in place contractual obligations to prepare and file certain information with the MSRB. The purpose of the rule is to ensure municipal issuers for issues of a certain size (generally an aggregate principal amount of \$1,000,000) provide disclosure to the public regarding financial information and certain events (including rating changes) as defined by the rule. The financial and event information is filed with the MSRB's NIIDS system by the issuer.

When SAMCO acts as an underwriter, placement agent, or remarketing agent for a primary municipal securities offering, it is obligated to obtain and file with NIIDS information about continuing disclosure undertakings by the issuer. This includes (i) whether the issuer or other obligated person has agreed to provide continuing disclosures; (ii) the identity of any obligated person other than the issuer; and (iii) the timing by which issuers or obligated persons have agreed to provide annual financial and operating data. This is generally accomplished through the issuer's written agreement with the underwriter to comply with Rule 15c2-12 disclosure requirements. If SAMCO does not act as manager, the underwriters' agreement may include assurances that the issuer's written agreement has been provided to the senior syndicate manager. The SEC has issued interpretive guidance that states that the final official statement must disclose instances of non-compliance over the past 5 years, when material. An underwriter may not be able to reasonably rely on the issuer's certifications of compliance if that issuer has a history of non-compliance; in those circumstances the underwriter

must independently determine compliance. A finding of continued non-compliance could preclude the underwriter from relying on an issuer's future continuing disclosure undertakings.

Secondary sales of municipal securities are also subject to disclosure requirements under Rule 15c2-12 and are discussed in the section *Sales Of Municipal Securities* and the subsection *Disclosures When Making Recommendations*.

17.8.4.1 Obligations When The Firm Acts As Senior Syndicate Manager Or Sole Underwriter

For issues subject to Rule 15c2-12, SAMCO is required to review a near final official statement ("deemed final official statement" under the Rule) which omits certain information permitted by the rule. The following summarizes some of SAMCO's requirements:

- Obtain a representation from the issuer as to what is the "deemed final official statement."
- Review the deemed final official statement to confirm that only permitted items are left blank.
- Obtain a written undertaking from the issuer that the issuer has agreed to provide notice to the MSRB within 10 business days of the occurrence of a "listed event" (as defined in the Rule) in an electronic format and accompanied by identifying information as prescribed by the MSRB.*
- Obtain a covenant from the issuer to supply final official statements within the required time frame.
- Obtain a covenant from the issuer to provide updated information at least during the period of the distribution and during any period where there is an obligation to distribute the final official statement.
- Review the public record of filings with NIIDS.

*Filing within 10 days of the occurrence applies to bonds issued after December 1, 2010.

17.8.4.2 Obligations When The Firm Is A Syndicate Member

While it is not necessary for SAMCO to replicate all of the diligence activities of a managing underwriter, prior to agreeing to participate in an underwriting, SAMCO will review a near final official statement. A copy of the OS will be retained in the file for the underwriting.

SAMCO must also assure itself that the issuer has agreed to provide the continuing disclosure required under 15c2-12. This may be included in the agreement among underwriters.

17.8.4.3 Obligations When The Firm is a Bidder in a Competitive Sale

For competitive issues, SAMCO will, at minimum, review the bid documents to assure itself that the issuer will take the actions necessary for SAMCO to comply with its obligations regarding disclosure and official statements.

17.8.5 CUSIP Numbers

[MSRB Rule G-34]

When required, application will be filed with the CUSIP Service Bureau for CUSIP numbers for new issues as follows:

- for negotiated sales, the CUSIP number must be obtained prior to the effective date of the underwriting;
- for competitive sales, in time for receipt by the date of award.

17.8.6 Underwriter Registration

[MSRB Rule G-34]

When acting as underwriter on a new issue of municipal securities with nine months or greater effective maturity, SAMCO will be registered with Depository Trust and Clearing Corporation's (DTCC) New Issue Information Dissemination System (NIIDS). NIIDS will be used to file an application for depository eligibility for new issues of municipal securities.

17.8.7 Limited Use Of NRO Designation

[MSRB Rule G-34(a)(iv); MSRB Notice 2012-48]

The term "not reoffered" or "NRO" may not be used in any written communication (electronic or otherwise) from and after the time of the initial award of a new issue unless the applicable price or yield information is included.

17.8.8 Expenses In Connection With New Issues

[MSRB Rule G-17 and G-20; MSRB Notice 2007-06]

Expenses which are reimbursed from bond proceeds must be reasonable and related to the municipal bond issuance process. Payments to issuers, depending on the nature of the expense reimbursement, may be subject to Rule G-20 regarding gifts and gratuities which includes a limit of \$100 per year (with some exceptions). Reimbursement of issuer expenses which might be characterized as excessive or lavish may be a violation of fair dealing and gift limitations, subjecting SAMCO to regulatory action.

The designated supervisor is responsible for confirming that only those expenses reasonably related to the offering are reimbursed from bond proceeds.

17.8.9 New Issue Sales During The Underwriting Period

[MSRB Rule G-11]

SAMCO will comply with requirements for sales during the underwriting period, as summarized below:

- At the time an order is submitted to the syndicate, disclose for whom the order is being submitted (including group orders)
- When acting as senior syndicate manager, SAMCO will:
 - Establish priority provisions
 - Communicate priority provisions and other syndicate requirements to syndicate members
 - Confirm sales directly to a related portfolio, municipal securities investment trust or accumulation account directly to the account or to the broker or dealer submitting the order
 - Within 24 hours of sending the commitment wire, allocate securities and within 2 business days following the date of sale disclose allocations to syndicate members
 - Within 10 business days following the date of sale disclose designations paid to syndicate and non-syndicate members
 - By the later of 15 business days following the date of sale or 3 business days following receipt of notification of set asides of the take-down, disclose to each syndicate member their portion of the take-down
 - At or before settlement of the syndicate account, provide syndicate members a statement of syndicate expenses and other information

17.8.10 Private Placements

A private placement is a negotiated offering where the new issue of municipal securities is sold on an agency basis by SAMCO, acting as placement agent, directly to institutional or private investors rather than through an offering to the general investing public. Engaging in a private placement requires that SAMCO follow the underwriting procedures included in this section regarding due diligence and

making regulatory filings, if required. In addition, investors may be subject to restrictions regarding resale of the securities and may be required to provide a private placement letter.

SAMCO is prohibited from engaging someone to solicit business on behalf of SAMCO and making payments to anyone not affiliated with SAMCO [MSRB Rule G-38]; therefore, placement agents must be employed by SAMCO if acting on behalf of SAMCO subject to SAMCO's policies and procedures including political contribution limitations.

17.8.11 Recordkeeping

A file will be maintained for each municipal underwriting in which SAMCO participates. The file will include at least the following records relating to the underwriting:

- a copy of the official statement and other information reviewed pursuant to SAMCO's due diligence review under Rule 15c2-12
- if SAMCO acts as senior syndicate manager or sole underwriter, as applicable, records of:
 - whether there was a retail order period and the issuer's definition of "retail," if applicable
 - whether SAMCO has deviated from customer priority provisions and the reasons for doing so
 - the underwriting agreement
 - any written agreement with the issuer
 - other records of underwriting activities including communications with syndicate members
- records of SAMCO's activities if it is a syndicate member, or submits orders to a syndicate, as outlined in the prior section
- records of all orders, whether filled or unfilled, for six years
- a record of to whom official statements or notice of electronic availability were provided, and the date provided
- any other records required under MSRB Rule G-8.

17.8.12 Official Statements

17.8.12.1 Providing Official Statements To Dealers, Purchasers, And Others

[MSRB Rule G-32]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • List of purchasers of the primary offering • Purchasers in the secondary market of primary offering securities during the primary offering disclosure period • Other dealers involved in the offering • Requests from dealers and others • MSRB Municipal Primary Offering Disclosure Report
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Provide purchasers and others with copies of the OS or information regarding accessing the information electronically through EMMA; also provide any other additional information required by rule
Record	<ul style="list-style-type: none"> • Records of providing official statements or notice regarding EMMA to purchasers are retained in the file for the underwriting and include: <ul style="list-style-type: none"> ○ customer name

	<ul style="list-style-type: none"> ○ security description ○ settlement date(s) ○ type of disclosure sent (preliminary or final OS) ○ date sent or notice provided ○ name of person who sent the OS or provided notice
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The following charts summarize some of the requirements for providing official statements (OS), presuming an OS is prepared for the issue. Rule G-32 should be consulted for details regarding these requirements.

"Primary offering disclosure period" means, regarding a primary offering, the period commencing with the first submission to an underwriter of an order for the purchase of offered municipal securities or the purchase of such securities from the issuer, whichever first occurs, and ending 25 days after the final delivery by the issuer or its agent of all securities of the issue to or through the underwriting syndicate or sole underwriter.

Description	What and When to Provide
Request from a customer for a preliminary or final OS	Preliminary OS by next business day by first class mail or equally prompt means
Customer purchases of new issue in the primary offering where final OS available	By settlement date provide a copy of the OS or notice advising how to obtain the OS from EMMA (along with notice of availability of the OS from a qualified portal, if applicable, and that a copy of the OS will be provided upon request). Customer must also be provided with the following for a negotiated issue if not included in the OS: (1) the underwriting spread, if any, (2) the amount of any fee received as agent for the issuer in the distribution, and (3) the initial offering price for each maturity in the offering, including maturities not re-offered.
Customer purchases of new issue in the primary offering where a preliminary OS is prepared and a final OS is not prepared	Preliminary OS by settlement date with notice no final OS will be prepared or if information has been submitted to EMMA (via NIIDS), notice to the customer of availability of that information
Customer secondary market purchases of primary offerings during the primary offering disclosure period	By settlement date provide a copy of the OS or notice advising how to obtain the OS from EMMA (along with notice of availability of the OS from a qualified portal, if applicable, and that a copy of the OS will be provided upon request).
Customer purchases of municipal fund securities	If the customer previously received an OS in connection with a prior purchase, send by settlement any new, supplemented, amended, or "stickered" OS by first class mail or equally prompt means including a statement that the complete OS is available. Include written disclosure of any fee received as agent for the issuer. If periodic statements are provided in lieu of confirmations, annual disclosure is permissible and any change in fee must be disclosed with the next periodic statement
When acting as financial advisor that prepares the OS	Make the final OS available to the managing underwriter, or sole underwriter in a designated electronic format promptly after the issuer

	approves its distribution
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17.8.12.2 Filing Official Statements And Advance Refunding Documents With The MSRB

[MSRB Rule G-32; NIIDS Dataport Manual: <http://www.msrb.org/msrb1/gatewaymanual.asp>]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Underwritings and advance refundings where [The Firm] is underwriter or financial adviser
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> File required information with NIIDS
Record	<ul style="list-style-type: none"> A record of sending the required information is maintained in the underwriting and/or public finance file for the issue.

Underwriters are required to electronically file information with the MSRB's New Issue Information Dissemination Service (NIIDS) system using Form G-32. Where a syndicate is formed, the managing underwriter is responsible for complying with G-32. The following chart summarizes the filing requirements; certain exemptions apply and are detailed in Rule G-32.

Description	When electronic filing required	Rule
Initiate submission of Form G-32 information	On or prior to the date of first execution (defined as the date on which the underwriter executes its first transactions with a customer or another broker, dealer, or municipal securities dealer)	G-32(b)(i)(A)
Official statements	Within one business day after receipt of the OS from the issuer or its designee, but by no later than closing date. If for any reason the OS is not submitted to NIIDS by the closing date, the underwriter is obligated to submit to NIIDS by the closing date notice that the OS has not been submitted and will be submitted when it becomes available. The delayed OS must be submitted within one business day after receipt from the issuer and the POS.	G-32(b)(i)(B)
No OS prepared for issue exempt from 15c2-12	No later than closing date submit notice that no OS was prepared and submit the POS or notice described in the next section	G-32(b)(i)(C)
Preliminary official statement (POS) submission	No later than closing date submit POS or, if no POS prepared, notice that none was prepared	G-32(b)(i)(D)
Issues exempt under Rule 15c2-12(d)(1)(I) for which an OS is prepared	Not required to submit the OS to NIIDS if the underwriter (1) makes the information submission described under section (A); (2) submits notice to NIIDS no later than closing date that the issue is exempt and an OS has been prepared and will not be submitted to NIIDS and contact information, including mailing	G-32(b)(i)(E)

	address, telephone number, e-mail address and name of an employee from whom customers may request the OS and delivers the OS to customers who request an OS or purchase within one business day after request or settlement of a transaction	
Exemption for certain commercial paper offerings or remarketings	Not required to send OS to purchasers or submit the OS or POS to NIIDS if no OS was prepared or the OS was previously filed with NIIDS in connection with a prior offering and has not been supplemented or amended subsequent to such prior submission	G-32(b)(i)(F)
Advance refunding documents	No later than 5 business days after closing date file the advance refunding document	G-32(b)(ii)
Amendments to OS, POS and advance refunding documents	Within one business day after receipt of the amendment from the issuer or an agent	G-32(b)(iii)
Cancellation of all or part of a primary offering	Promptly notify NIIDS. If only a portion is cancelled, amend or supplement information submitted to NIIDS no later than closing date	G-32(b)(iv)

17.8.13 Short-term Obligation Rate Transparency (SHORT) System

[MSRB Rule G-34(c); MSRB Notice 2011-17]

Responsibility	<ul style="list-style-type: none"> Designated Supervisor
Resources	<ul style="list-style-type: none"> Variable rate securities documents
Frequency	<ul style="list-style-type: none"> As required
Action	<ul style="list-style-type: none"> Submit information to the SHORT System within specified deadlines If a designated agent is used, obtain electronic filing record to confirm filing has been made as required If designated agent filing was not submitted on a timely basis, consult with agent regarding reason for the deficiency and take corrective action, as appropriate, which may include changing reporting agents
Record	<ul style="list-style-type: none"> Records will be retained for three years of: <ul style="list-style-type: none"> all of the ARS for which SAMCO acts as Program Dealer all of the VRDO for which SAMCO acts as Remarketing Agent all information submitted to the SHORT system

Firms are required to report information about Auction Rate Securities (ARS) and municipal Variable Rate Demand Obligations (VRDO) to the MSRB's SHORT System. Submissions to the SHORT system are through an MSRB Gateway account and are allowed only for authorized classes of submitters including:

- ARS program dealers;
- VRDO remarketing agents;

- ARS auction agents; and
- Designated Agents designated by one of the above categories of submitters.

Documents to be filed include ARS documents defining current auction procedures and interest rate setting mechanisms and VRDO documents relating to Letter of Credit Agreements, Stand-By Purchase Agreements, and any other documents that establish an obligation to provide liquidity as well as other information under Rule G-34(c). Certain confidential information may be redacted prior to filing with the SHORT system.

17.8.14 Syndicate Practices

Underwriters and syndicate members have specific responsibilities when participating in underwritings of municipal securities. The following summarizes some of those responsibilities under MSRB rules and the timeframes when certain actions must be completed. This is only a summary of requirements; the rules should be consulted for details regarding specific requirements.

1. CUSIP and depository application requirements [G-34]:

Requirement	When	MSRB Rule(s)	Managing Underwriter	Sole Underwriter	Syndicate Member
For new issues with 9 months or more effective maturity, file application through NIIDS for depository eligibility	Prior to acting as underwriter	G-34(e)	X	X	
If needed, apply for CUSIP number	Negotiated deal: no later than the time that pricing information for the issue is finalized Competitive deal: immediately after receiving notification of the award from the issuer	G-34(a)(i)(A)	X	X	

2. Communications (in writing) relating to issuer syndicate requirements, priority provisions and order period [G-11(f)]:

Requirement	When	MSRB	Managing	Sole	Syndicate
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		Rule(s)	Underwriter	Underwriter	Syndicate Member
All terms and conditions required by the issuer	Prior to 1st offer of securities	G-11(f)	X		
Priority provisions	Prior to 1st offer of securities	G-11(f)	X		
The procedure, if any, by which such priority provisions may be changed	Prior to 1st offer of securities	G-11(f)	X		
If the senior syndicate manager or managers are permitted on a case-by-case basis to allocate securities in a manner other than in accordance with the priority provisions, the fact that they are to be permitted to do so	Prior to 1st offer of securities	G-11(f)	X		
If there is to be an order period, whether orders may be confirmed prior to the end of the order period	Prior to 1st offer of securities	G-11(f)	X		
Any change in the priority provisions must be provided to other syndicate members	Promptly	G-11(f)	X		
Information above, requested by others	Promptly	G-11(f)	X		
If the senior syndicate manager rather than the issuer prepares the written statement of all terms and conditions, provide statement to issuer	Promptly	G-11(f)	X		

3. Other G-11 requirements:

Requirement	When	MSRB Rule(s)	Managing Underwriter	Sole Underwriter	Syndicate Member
Establish priority provisions	Prior to 1st offer of securities	G-11(e)	X		

Disclose any orders submitted for dealer account or a related portfolio	At time of submission	G-11(b)			X
Confirm directly to a related portfolio, municipal securities investment trust, or accumulation account	At time of sale	G-11(c)	X		
For group orders, disclose identity of person for whom order is submitted	At time of submission	G-11(d)			X

4. Designations and allocations of securities [G-11(g)]:

Requirement	When	MSRB Rule(s)	Managing Underwriter	Sole Underwriter	Syndicate Member
Complete the allocation of securities	Within 24 hours of sending commitment wire (some exceptions apply)	G-11(g)(i)	X		
Notify syndicate members, in writing, of a summary, by priority category, of all allocations accorded priority over members' take-downs	Within 2 business days following date of sale	G-11(g)(ii)	X		
Disclose to syndicate members, in writing, all available designation information	Within 10 business days following date of sale	G-11(g)(iii)	X		
Disclose to syndicate members, in writing, all information about designations paid	With the sending of designation checks	G-11(g)(iii)	X		
Disclose to syndicate members, in writing, amount of any portion of the take-down directed to each member of the syndicate by the issuer	By the later of 15 business days following date of sale or 3 business days following receipt by senior syndicate manager of notification of	G-11(g)(iv)	X		

	such set-asides				
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5. Syndicate member designations:

Requirement	When	MSRB Rule(s)	Managing Underwriter	Sole Underwriter	Syndicate Member
Syndicate members must provide designations to manager	Within 2 business days after bond closing	G-11(i)			X

6. Disclosure of syndicate expenses and other information [G-11(h), (i), (j) & G-12]:

Requirement	When	MSRB Rule(s)	Managing Underwriter	Sole Underwriter	Syndicate Member
Provide syndicate members, in writing, with itemized statement of nature and amounts of all actual expenses	Competitive: prior to submission of bid; Negotiated: prior to purchase contract with issuer	G-11(h)(i)	X		
Provide syndicate members with written summary statement including information regarding identity of each related portfolio, trust, or	At or before final settlement of syndicate account	G-11(h)(ii)	X (does not apply to senior syndicate manager of a qualified		

accumulation account, identity of persons submitting group orders, and aggregate and par values and prices of all securities sold			note syndicate)		
Settle syndicate, secondary market trading or similar account	Within 30 calendar days following date all securities delivered to syndicate members or account members	G-11(i) G-12(i)	X		
Submit allocations of designations to syndicate manager	Within 2 business days following date issuer delivers securities to syndicate	G-11(j)			X
Distribute designated credits	Within 10 calendar days following date issuer delivers securities to syndicate	G-11(j)	X		

7. Provide official statements:

Requirement	When	MSRB Rule(s)	Managing Underwriter	Sole Underwriter	Syndicate Member
To purchasers	No later than settlement	G-32(a)	X	X	X
To brokers, dealers, and municipal dealers that purchase the new issue	By the business day following a request	G-32(b)	X	X	X
To the MSRB	See section on "Filing Official Statements With the MSRB"	G-36	X	X	

17.9 Direct Purchases And Bank Loans

[MSRB Notice 2011-52]

Some state and local governments use "direct purchases" (private placements of their municipal securities with banks) and bank loans as a method of raising funds and as an alternative to public offerings. The MSRB has indicated that certain financings may be municipal securities subject to MSRB rules.

Outside counsel should be consulted when SAMCO is involved in bank loan transactions or acts as a placement agent for a direct purchase or bank loan to determine whether such transactions or activities would be deemed municipal securities subject to MSRB rule requirements.

17.10 Financial Advisor Activities

[MSRB Rule G-17 and G-23; MSRB Notice 2009-42; Interpretive Notice Regarding Disclosure of Material Facts dated 3/20/02]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Determine engagements with municipalities• Notify Compliance of advanced refundings to be added to SAMCO's Watch List
Frequency	<ul style="list-style-type: none">• As required
Action	<ul style="list-style-type: none">• Accept engagements• Ensure required contracts are obtained• Conduct or engage outside counsel to conduct due diligence where necessary• Provide public material information (that is available internally but not from the official statement or other standard industry sources) to trading and/or sales personnel to meet G-17 obligations regarding required disclosures to customers when effecting municipal transactions
Record	<ul style="list-style-type: none">• Contracts, engagement agreements, and other documents included in the issuer file• Record of providing internal public information to sales/trading personnel are retained in the issuer file

17.10.1 Financial Advisory Relationship Defined

A financial advisory relationship exists when SAMCO renders or enters into an agreement to render financial advisory or consultant services to or on behalf of an issuer, for a fee or other compensation, with respect to a new issue of municipal securities, including advice with respect to the structuring, timing, terms and other similar matters. A financial advisory relationship does not exist where, in the course of acting as an underwriter, SAMCO renders similar advice to an issuer.

17.10.2 Professional Qualifications

All employees engaged in providing financial advisory or consulting services to or on behalf of a municipal issuer in connection with the issuance of municipal securities will be qualified as municipal securities representatives as required by MSRB rules.

17.10.3 Written Agreements

Written agreements will be obtained for all financial advisory relationships prior to, upon, or promptly after the inception of the relationship. The agreement will include provisions specified in MSRB Rule G-23(c).

17.10.4 Prohibition Against Underwriting Or Placement Activities

[MSRB Rule G-23(d); MSRB Notice 2011-65]

If SAMCO acts as financial advisor to an issuer, it is prohibited from participating in a negotiated or competitive offering of the same issue of securities the subject of financial advisor activities. In addition, SAMCO is prohibited from serving as initial remarketing agent for the same issue. SAMCO may, when it acts as a financial advisor:

- Place an issuer's entire issue with another governmental entity, such as a bond bank, as part of a plan of financing by such entity for or on behalf of the issuer client
- Serve as successor remarketing agent for the issue if the financial advisor relationship has been terminated for at least one year
- Purchase such securities from an underwriter, either for its own trading account or for the account of its customers (but not to circumvent the Rule)

17.10.5 Official Statements

If SAMCO, in its role as financial advisor, prepares a final official statement on behalf of an issuer, it will provide the official statement to the managing underwriter or sole underwriter promptly after the award is made. If SAMCO, as financial advisor, is responsible for printing the final official statement, it will make adequate copies available to the managing underwriter or sole underwriter promptly after the award is made but no later than two business days before the date all securities are delivered by the syndicate manager to the syndicate members.

17.10.6 Advanced Refunded Securities

This section discusses policies when SAMCO is financial advisor to an issuer involved in an advanced refunding of its securities.

17.10.6.1 Timely Dissemination Of Information

Timely dissemination is important to ensure investors and other market participants are aware of issues that are subject to an advance refunding. When SAMCO as financial advisor is in control of information regarding an advanced refunding, it will provide such information to the market through information vendors or by other means. This information will be provided at the appropriate time, which generally will be by or shortly after the date of sale of the refunding issue.

17.10.6.2 Confidentiality Of Non-Public Information

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Information regarding pending advance refundings
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Notify Compliance of pending advance refunding • Compliance is responsible for monitoring trading in the issue and following up transactions in accordance with SAMCO's Insider Trading procedures
Record	<ul style="list-style-type: none"> • Include notation in the deal file when Compliance is notified

Because knowledge of an advance refunding may affect the value of outstanding securities, it is important that, prior to public announcement, this information be maintained on a confidential basis. This information is subject to SAMCO's policy on Insider Trading. In general:

- Knowledge of advanced refundings (that have not been publicly announced) may constitute knowledge of inside information.
- SAMCO has physical barrier protection of information.
- Financial advisory personnel must protect confidential information in locked files, password-protected computer files, *etc.*, and may not discuss the confidential information in public areas such as elevators and other public locations where others may gain access to the information.

- SAMCO has procedures in place to detect and prevent trading on inside information. The designated supervisor is responsible for notifying Compliance of potential refundings that have not yet been announced. Compliance will monitor trading for transactions in the subject security.

17.10.7 Recordkeeping

Files will be maintained for each financial advisory relationship and will include at least the following:

- A copy of the financial advisory agreement
- A copy of the final official statement, if prepared by SAMCO in its role as financial advisor
- Records of providing the final official statement, if prepared as financial advisor, to the managing underwriter or sole underwriter and the date when provided

17.11 Solicitation Of Municipal Securities Business

[MSRB Rule G-38]

SAMCO will not, directly or indirectly, make payment to anyone who is not an affiliated person for the solicitation of municipal securities business on behalf of SAMCO.

An "affiliated person," for purposes of this policy, includes anyone who is a partner, director, officer, employee, or registered person of SAMCO, or of an affiliated company of SAMCO. "Affiliated company" includes any entity directly or indirectly controlling, controlled by, or under common control with SAMCO, and whose activities are not limited solely to soliciting municipal securities business.

"Solicitation" is defined in Rule G-38 and interpretive notices which exclude certain limited communications with issuers from being defined as a solicitation of business. Limited communications include providing information about general capabilities of the dealer; communications incidental to completing tasks related to business for which the dealer has been engaged (e.g., engaging an outside contractor to provide cash flow expertise); communications with conduit borrowers; and communications with unaffiliated professionals who provide legal, accounting, engineering, or other professional services where the professional is paid for services rather than for soliciting municipal business. Because of the complexity of the definition of "solicitation," Compliance should be contacted regarding questions about activities that may or may not be deemed soliciting municipal business.

17.12 Broker's Brokers

[MSRB Rule G-43; MSRB Notice 2012-34]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Agreements with other dealers • Transactions where SAMCO acts as a broker's broker
Frequency	<ul style="list-style-type: none"> • As required - execute agreements • Daily or weekly, depending on availability of reports - review transactions • Initially and ongoing - provide training to traders • Annually - disclose policies and procedures
Action	<ul style="list-style-type: none"> • Execute agreements (including required disclosures) to act as a broker's broker and provide dealers with SAMCO's commission or similar schedule • Post bid-wanted parameters on SAMCO's website

	<ul style="list-style-type: none"> • Post policies and procedures on SAMCO's web site and notify dealers annually • Review transactions to determine compliance with bid-wanted and other execution requirements including recording of deadlines and disclosure of customer or affiliates allowed to place bids • Take corrective action which may include: <ul style="list-style-type: none"> ○ Cancel/correct transactions ○ Confer with trader ○ Provide added training for trader • For new and existing traders: provide training in requirements for handling broker's broker transactions
Record	<ul style="list-style-type: none"> • Agreements with other dealers • Annual notice to dealers regarding policies and procedures • Reviews of transactions including action taken, if any • Training including who was trained, when it occurred, subjects included

SAMCO may act as a broker's broker, an intermediary between selling dealers and bidding dealers. Its obligations in that role include the following. Rule G-43 should be consulted for definitions and details regarding these obligations.

- Make a reasonable effort to obtain a fair and reasonable price relating to prevailing market conditions.
- Not take any action that works against the dealer's interest to receive advantageous pricing.
- Presumably act for or on behalf of the seller in a bid-wanted for municipal securities, unless both the seller and bidders agree otherwise in writing in advance of the bid-wanted.

17.12.1 Disclosures

SAMCO will disclose its broker's broker activities including the following:

- The nature of its undertaking for the seller and bidders in bid-wanted and offerings
- The manner in which SAMCO will conduct bid-wanted and offerings
- A description in detail of the manner in which it will satisfy its obligation to obtain a fair and reasonable price in the case of offerings and bid-wanted not conducted in accordance with the section "Bid-Wanted"
- The policies and procedures to meet the requirements of Rule G-43 to sellers of, and bidders for, municipal securities in writing at least annually and post the policies and procedures in a prominent position on its website.

Transaction disclosures (in addition to others in this section) include the following:

- If SAMCO allows customers [as defined in Rule D-9] or affiliates [as defined in Rule G-11(a)(x)] to place bids, it must disclose that fact to both sellers and bidders in writing and require disclosure to the seller if the high bid in a bid-wanted or offering is from a customer or an affiliate of SAMCO; SAMCO is not required to disclose the name of the customer or affiliate.

17.12.2 Bid-Wanted

- A reasonable effort must be made to disseminate a bid-wanted widely to obtain exposure to multiple dealers. No fixed number of bids is required; bid-wanted include (but are not limited to) the underwriter of the issue and prior known bidders on the issue.
- For securities of limited interest, make a reasonable effort to reach dealers with specific knowledge of the issue or known interest in securities of the type being offered.
- Each bid-wanted must have a deadline for the acceptance of bids, after which SAMCO will not accept bids or changes to bids. The deadline must be noted in the order record; refer to G-43 for a description of types of deadlines.
- If SAMCO believes that a high bid received above or below the predetermined parameters may have been submitted in error, the bidder may be contacted prior to the deadline to determine if the bid was submitted in error; consent from the seller is not required. If the high bid is within parameters but SAMCO believes the bid may have been submitted in error, the seller's oral or written permission must be obtained prior to contacting the bidder to determine whether the bid was submitted in error (the seller's permission must be noted on the order).
- If the high bid is below the predetermined parameters, this must be disclosed to the seller; the trade may still be effected if the seller acknowledges the disclosure either orally or in writing. The disclosure and acknowledgment must be noted on the order.
- If the winning high bidder's bid or cover bid in a bid-wanted has been changed, SAMCO will disclose the change to the seller prior to execution and provide the seller with the original and changed bids (the disclosure must be noted on the order).
- To conduct bid-wanted, SAMCO has adopted predetermined parameters which will be disclosed prominently on its website in advance of the bid-wanted in which they are used. SAMCO will periodically test the predetermined parameters to determine whether they have identified most bids that did not represent the fair market value of municipal securities that were the subject of bid-wanted to which the predetermined parameters were applied.

17.12.3 Compensation

SAMCO will be compensated on the basis of commissions or other economically similar basis and will provide the seller and bidders with a copy of its commission or other economically similar schedules for transactions, with such schedules reflecting at a minimum the maximum charge that SAMCO could impose on a given transaction.

17.12.4 Prohibitions

As a broker's broker, SAMCO is prohibited from:

- maintaining municipal securities in any proprietary or other accounts, other than for clearance and settlement purposes;
- self-dealing;
- encouraging bids that do not represent the fair market value of municipal securities that are the subject of a bid-wanted or offering;
- giving preferential information to bidders in bid-wanted, including but not limited to, "last looks," directions to a specific bidder that it should "review" its bid or that its bid is "sticking out;"
- changing a bid price or offer price without the bidder's or seller's respective permission;
- failing to inform the seller of the highest bid in a bid-wanted or offering;
- accepting a changed bid or a new bid from a bidder in the same bid-wanted after SAMCO has selectively informed that bidder whether its bid is the high bid ("being used") in the bid-wanted; and
- subject to the provisions of bid-wanted requirements, if applicable, and the prohibition in the above bullet, providing any person other than the seller (which may receive all bid prices) and the winning bidder (which may only receive notice that its bid is the winning bid) with information about bid prices, until the bid-wanted has been completed, unless SAMCO makes such information available to all market participants on an equal basis at no cost, together with disclosure that any bids may not represent the fair market value of the securities, and discloses publicly that it will make such information public.

17.13 Trading And Handling Customer Orders

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records
Frequency	<ul style="list-style-type: none">• Daily and Ongoing
Action	<ul style="list-style-type: none">• Oversee trading and execution activities• Establish procedures for maintaining records of orders• Review fairness of mark-ups and mark-downs• Review daily inventory positions for compliance with Firm limits• Review errors and error accounts• Report system outages or technology-related problems that prevent timely reporting of trades to the MSRB
Record	<ul style="list-style-type: none">• Initials and date reviewed on available transaction reports or order records; notations of action taken where appropriate• Notations in Daytimer or supervisor's log• Record of reporting system outages/technology problems

SAMCO will handle orders in accordance with MSRB Rule G-18 and will make reasonable efforts to obtain prices for customers that are fair and reasonable in relation to prevailing market conditions.

17.13.1 Quotations

[MSRB Rule G-13]

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 SAMCO's inventory position and anticipated market movement.

On joint accounts, quotations must not indicate more than one market in the same security.

If quotations are distributed outside SAMCO in writing, a record of the written quotations will be retained by the designated supervisor including the quotation, the date of the quotation, and the person giving the quotation and to whom the quotation was provided. If quotations are included in Firm advertising, records will be retained in accordance with SAMCO's advertising policy.

17.13.2 Fair Prices

[MSRB Rule G-30]

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.

17.13.3 Minimum Denominations

[MSRB Rule G-15 and G-17]

SAMCO may not sell municipal securities issued after June 1, 2002 to customers in amounts below the minimum denomination as explained in the section *Sales Of Municipal Securities*, with limited

exceptions. In addition, where municipal securities issued on or before June 1, 2002 are sold to customer below minimum denominations, SAMCO has an obligation to make written disclosure to the customer regarding the potential affect on liquidity.

Municipal traders are responsible for:

- identifying potential sales to customers in amounts below the minimum denomination
- determining whether the security was issued after June 1, 2002
- if the security was issued after June 1, 2002, refusing the order or inquiring whether the sale represents the customer's entire position in the security, in which instance the order may be accepted and the order must be marked to ensure inclusion of the required disclosure on the customer confirmation
- if the security was issued on or before June 1, 2002, marking the order to ensure inclusion of the required disclosure on the customer confirmation

17.13.4 Official Statements

[MSRB Rule G-32]

Customers who purchase municipal securities during the "primary disclosure period" will be provided copies of official statements (OS's) or information regarding accessing OS information electronically through EMMA. Refer to the section *Underwriting* and the subsection *Providing Official Statements To Dealers, Purchasers, And Others* for details regarding provision of OS's and recordkeeping.

This requirement to provide OS information applies whether or not SAMCO is an underwriter or participates in the underwriting and applies during the "primary offering disclosure period." "Primary offering disclosure period" means, regarding a primary offering, the period commencing with the first submission to an underwriter of an order for the purchase of offered municipal securities or the purchase of such securities from the issuer, whichever first occurs, and ending 25 days after the final delivery by the issuer or its agent of all securities of the issue to or through the underwriting syndicate or sole underwriter.

17.13.5 Records Of Orders

[MSRB Rule G-8]

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 in municipal securities.

17.13.6 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 SAMCO 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 the Firm's business
- any other relevant facts at time of execution

MSRB Rule G-30 also includes the factor that SAMCO 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 to reflect an acceptable mark-up or mark-down.

17.13.7 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 SAMCO
- the amount of any other compensation received by SAMCO in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

17.13.8 Reports Of Transactions

[MSRB Rule G-14; MSRB Rule G-14 RTRS Procedures; MSRB RTRS Users Manual; MSRB dealer data web site: <http://www1.msrb.org/dfs1/default.htm>]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Trade data• MSRB dealer data and other available reports• MSRB customer report edit register
Frequency	<ul style="list-style-type: none">• Weekly and monthly review of MSRB data depending on frequency of reports
Action	<ul style="list-style-type: none">• Review MSRB data to determine accuracy of clearing firm's reporting, specifically reviewing for trades successfully submitted vs. those with errors• When patterns of errors are detected, contact the clearing firm to determine what corrective action will be taken
Record	<ul style="list-style-type: none">• Initials and date reviewed on MSRB reports; notations of action taken where appropriate

Inter-dealer and customer municipal transactions are submitted to the Firm's clearing firm for reporting transactions in municipal securities to the MSRB's Real-Time Transaction Reporting System (RTRS).

17.13.8.1 Fictitious Reports

[MSRB Rule G-14(a)]

Reports of transactions must represent bona-fide purchases or sales. No dealer may report a trade that it knows or has reason to know is fictitious or misleading.

17.13.8.2 System Outages

If SAMCO experiences a system outage or other technology-related problem that affects the ability to comply with MSRB transaction reporting rules or other reporting requirements such as current interest rates and documents for certain variable rate securities to the MSRB Short-term Obligation Rate Transparency System or information or documents about new issues filed with EMMA, the outage will be reported online through SAMCO's MSRB Gateway account.

17.13.9 Inventory Positions

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor • FINOP
Resources	<ul style="list-style-type: none"> • Pricing provided by traders • Independent pricing services • MSRB transaction information
Frequency	<ul style="list-style-type: none"> • Daily
Action	<ul style="list-style-type: none"> • Designated supervisor: <ul style="list-style-type: none"> ○ Review daily pricing, marks ○ If pricing appears unreasonable, contact trader and make necessary adjustments ○ Review requests for exceptions to inventory limits and, in consultation with the FINOP, approve or disapprove ○ Provide training to traders on proper pricing • FINOP: <ul style="list-style-type: none"> ○ Review daily inventory to confirm compliance with limits ○ If limits exceeded, contact the trader's supervisor; reduce the position or approve an exception; take corrective action (in conjunction with the designated supervisor) which may include restricting the trader's activities, added training for the trader, or other action as appropriate • Risk management: <ul style="list-style-type: none"> ○ Monitor intra-day risk (size, exposure, net buys vs. short positions, <i>etc.</i>)
Record	<ul style="list-style-type: none"> • Daily pricing of inventory • Designated supervisor's review of marks • FINOP review of compliance with inventory limits • Risk management actions when anomalies are detected

SAMCO has established guidelines for maintaining inventory positions. Traders are responsible for complying with inventory position limits. Exceptions require the approval of the designated supervisor.

17.13.9.1 Pricing Positions

It is the traders' responsibility to price municipal inventory positions at the end of each trading day. Positions are priced using one or more of the following resources:

- Transactions that day in the security being priced

- If no transactions, transactions in similar securities (rating, maturity, type, insured vs. non-insured, *etc.*)
- Index values
- Treasury curve, yield curve changes
- Consideration of overall market
- Conversations with other dealers regarding the market
- MSRB published transactions in the same or like securities
- Pricing available from Bloomberg, other vendors

Traders should be conservative when pricing positions. Daily pricing of inventory positions is communicated to the FINOP.

17.13.10 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account. Errors in customer accounts are documented on the Cancel and Rebill/Error Report form which requires a designated principal's approval.

17.13.11 Cancels And Rebills

Cancellations and rebills in customer accounts are documented on the Cancel and Rebill/Error Report form which requires a designated supervisor's signature.

17.13.12 Traders' Personal Accounts

Traders are required to maintain their personal securities accounts with SAMCO. Traders may not effect personal transactions in municipal securities from SAMCO inventory. Purchases or sales must be made on an agency basis with other dealers. Exceptions require the approval of the designated supervisor.

17.13.13 Prohibited Activities

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Trading reports • Observation of traders' activities
Frequency	<ul style="list-style-type: none"> • Ongoing
Action	<ul style="list-style-type: none"> • Take corrective action depending on the nature of the prohibited activity
Record	<ul style="list-style-type: none"> • Trading Dept. files and/or the Trading Manager's Log

17.13.13.1 Inside Information

[Insider Trading and Securities Fraud Enforcement Act of 1988; SEC Securities Exchange Act of 1934 Rule 10b-5; FINRA Notice to Members 89-15]

Traders are prohibited from acting on, passing on, or discussing any inside information regarding municipal issues, including confidential information regarding advance refundings. Any knowledge of such information must be brought to the attention of the designated supervisor and Compliance. No SAMCO proprietary account or employee account may enter a transaction based on material non-public information about the issuer of that security.

17.13.13.2 Fraud Or Misrepresentation

[SEC Securities Exchange Act of 1934 Rule 15c1-2]

SAMCO and its employees are prohibited from engaging in any activity that may be deemed fraudulent or engaging in misrepresentation. This is a general standard that applies to all securities and prohibits making untrue statements about material facts or omitting to state a material fact that is necessary so information presented is not misleading. This applies when the person has reasonable grounds for knowing a statement is untrue or misleading.

17.13.13.3 Improper Use of Assets

[MSRB Rule G-25]

Rule G-25 provides general prohibitions applicable to municipal securities transactions as well as other types of securities and accounts. The following summarizes the prohibitions under G-25:

- No improper use of municipal securities or funds held on behalf of someone else
- No guarantees against loss
- No sharing by employees, indirectly or directly, in the profits or losses of a customer's account

The chapter *GENERAL EMPLOYEE POLICIES* includes similar prohibitions and limitations on activities.

17.13.13.4 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.*).

17.13.13.5 Market Manipulation

[SEC Securities Exchange Act of 1934 Rule 10b-3]

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.

17.13.13.6 Parking Securities

No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to an accommodator 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.

17.13.13.7 Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

17.13.13.8 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.

17.14 Gifts

[MSRB Rule G-20]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
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Resources	<ul style="list-style-type: none"> • Requests to give gifts
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review and approve or disapprove gift requests • Maintain record of gifts
Record	<ul style="list-style-type: none"> • Compliance maintains a file of gift requests and gifts given

17.14.1 Introduction

Gifts relating to SAMCO's business are limited to \$100 per year per person. Gifts of tickets to sporting events, or similar gifts where the employee does not accompany the recipient, are subject to the limitations on gifts and gratuities. Such gifts may not be so frequent, or so expensive, as to raise a suggestion of unethical conduct.

Employees are required to notify Compliance of gifts relating to customers or prospective customers. Compliance is responsible for maintaining a record of gifts; the record is subject to review by regulators.

The MSRB also has limitations on cash and non-cash compensation relating to offerings of municipal securities. SAMCO's policy is in the chapter *ORDERS*, in the section *Cash And Non-Cash Compensation Policy*.

Also refer to *Gifts, Gratuities And Entertainment* in the chapter *GENERAL EMPLOYEE POLICIES*.

17.14.2 Sales Contests

[MSRB Rule G-20.20]

When a municipal securities broker or dealer sponsors a contest and provides gifts or payments to employees of a different broker-dealer, certain requirements apply **prior to** conducting the contest. The sponsoring dealer must obtain a written agreement between the employing broker-dealer and the person who will perform services subject to the contest including the nature of proposed services, amount of proposed compensation, and the written consent of the person's employer.

All proposed contests must be submitted to Compliance for review and approval.

17.15 Political Contributions

[MSRB Rule G-37 and G-37 Q and A; SEC Risk Alert: <http://www.sec.gov/news/press/2012/2012-173.htm>]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests to make political contributions • Quarterly certifications
Frequency	<ul style="list-style-type: none"> • As required (<i>requests</i>) • Quarterly (<i>certifications and filing G-37 report</i>)
Action	<ul style="list-style-type: none"> • Review requests and determine permissibility

	<ul style="list-style-type: none"> • Identify municipal securities professionals covered by Rule G-37 • Maintain list of current municipal securities professionals • Request quarterly certifications from municipal securities professionals • Prepare and file Form G-37 • Notify appropriate department managers if [The Firm]'s activities must be restricted • Contact Compliance to determine corrective action if prohibited activities using Firm resources are identified
Record	<ul style="list-style-type: none"> • Compliance maintains files for: <ul style="list-style-type: none"> ○ Requests and responses ○ Quarterly certifications ○ Quarterly reports ○ List of municipal securities professionals ○ Restrictions, if appropriate

17.15.1 Introduction

MSRB Rule G-37 specifies restrictions and requirements regarding political contributions to individuals who may influence the placement of municipal securities business as defined in the rule. The purpose of the rule is to sever any connection between political contributions and the awarding of municipal business. The rule does not prohibit political contributions; it does, however, prohibit SAMCO from engaging in municipal business for two years with any issuer where contributions subject to this rule are made. Because SAMCO 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.

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.

17.15.2 Summary Of Key Requirements

Some of the key requirements that apply to SAMCO and SAMCO employees are summarized below.

- The types of public finance business included in this rule are acting as a negotiated underwriter (as manager or syndicate member), financial advisor or financial consultant, placement agent, and negotiated remarketing agent.
- The rule applies to contributions made by SAMCO, any PAC controlled by SAMCO, public finance professionals, municipal traders and professionals, SAMCO's executive committee, and anyone deemed to be a Municipal Finance Professional (MFP) as defined in the rule.
- Political contributions by SAMCO 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.
- SAMCO and its employees are prohibited from soliciting others to make contributions to an official of an issuer.
- Employees are prohibited from using Firm resources (phones, email, computers, office space, etc.) for political activities subject to Rule G-37. This includes (but is not necessarily limited to) fund-raising; drafting speeches or fund-raising solicitations, writing campaign memoranda, contracts, letters, talking points, position papers, and responses to issues; approving campaign invoices and expenditures.
- SAMCO, its municipal finance professionals (MFPs), and affiliates are prohibited from soliciting any person or political action committee (PAC) to make or coordinate contributions

to an official of an issuer with which SAMCO is engaged in business, or is seeking to engage in business.

- SAMCO will be required to maintain internal records of affected employees and their contributions and report quarterly to the MSRB.
- SAMCO cannot pay compensation for soliciting municipal business to anyone who is not affiliated with SAMCO (see the prior section *Solicitation Of Municipal Securities Business*).

17.15.3 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 financial 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 SAMCO engages a consultant to secure municipal business, the consultant's contributions will affect SAMCO'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.

17.15.4 Definition Of Municipal Finance Professional

Municipal finance professionals subject to political contribution limitations and reporting requirements include (other than employees whose functions are solely clerical or ministerial) employees engaged in:

- municipal securities representative activities (including sales, except that sales to natural persons are NOT included)
- underwriting or trading
- financial advisory or financial consultant services for municipal issuers
- research or investment advice regarding municipal securities
- soliciting municipal securities business as defined in this section
- supervision of the above activities
- acting as CEO or a similar position
- serving on a dealer's executive or management committee

RRs who sell municipal securities to individual investors are not included in this definition or the restrictions on political contributions.

17.15.5 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 SAMCO's principal business units, division or department or an employee who performs similar policy making functions for SAMCO. For purposes of this definition, a "principal" business unit, division or department will be defined as one that generates more than 5% of SAMCO'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.

17.15.6 Types Of Contributions Included

The following types of contributions made by SAMCO or affected employees are subject to the Rule. Those excluded are also explained below.

- "Contributions" include any gift, subscription, loan, advance, or deposit of money or anything of value made: (i) for the purpose of influencing any election for federal, state or local office; (ii) for payment or reduction of debt incurred in connection with any such election; or (iii) for transition or inaugural expenses incurred by the successful candidate for state or local office. "State" includes any state of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, or any other possession of the United States. Contributions also include those

made to bond ballot campaigns which typically occur as a result of a state or local government placing a ballot measure before voters to approve specified municipal borrowing.

- Contributions to an "official of an issuer" are subject to the rule. An "official of an issuer" is defined as any incumbent, candidate or successful candidate for elective office of the issuer, which office is directly or indirectly responsible for, or can influence the outcome of, the hiring of a dealer for municipal securities business. This includes any issuer official or candidate (or successful candidate) who has influence over the awarding of municipal securities business so that contributions to certain state-wide executive or legislative officials (including governors) would be included within the rule.
- Indirect contributions by affected employees are also subject to the rule, including contributions to a local political party who is soliciting contributions to specifically support an issuer official.
- Specifically excluded from this requirement are contributions by municipal finance professionals that do not exceed, in total, \$250 to each official, per election, but only if the municipal finance professional is entitled to vote for such official. The MSRB has defined "entitled to vote" to mean the municipal finance professional's principal residence is in the locality in which the issuer official seeks election.
- The definition of "contribution" does not restrict the personal volunteer work of municipal finance professionals in political campaigns other than soliciting or coordinating contributions. However, if the resources of SAMCO are used (a political position paper is prepared by SAMCO personnel, SAMCO supplies or facilities are used, etc.) or expenses are incurred by a municipal finance professional in the course of the volunteer work, the value of the resources or expenses would be considered a contribution and could trigger the restriction on business.

17.15.7 Contributions Subject To Political Contribution Limitations And Reporting

Covered contributions include those by SAMCO, any PAC controlled by SAMCO, and by municipal finance professionals listed above. The rule does NOT apply to other employees, provided that contributions are not made for the purpose of inducing or influencing the obtaining or retaining of public finance business from an issuer.

17.15.8 Look-Back And Look-Forward Provisions

[MSRB Rule G-37(b)(iii); MSRB Notice 2003-11]

Individuals who are employed as municipal finance professionals are subject to rules requiring a "look-back" at their political contributions prior to joining SAMCO. Prior contributions to issuer officials may restrict SAMCO's ability to do municipal securities business with that issuer until the "look-forward" period has expired. At the time of hire, new municipal finance professionals will be asked to provide information regarding contributions during the look-back period, and the designated supervisor will determine whether restrictions will apply. The individuals affected and the periods are:

Person Affected	Look-Back	Look-Forward
MFPs primarily engaged in municipal securities representative activities (trading or underwriting, financial advisory or consultant services for municipal issuers)	2 years	1 year
Those soliciting municipal finance business for SAMCO	2 years	1 year
Supervisors and management-level MFPs	6 months	1 year

17.15.9 Political Action Committees (PACs)

[MSRB Guidance on Dealer-Affiliated PACs Under Rule G-37, 10-21-10]

Responsibility	<ul style="list-style-type: none"> • Designated Supervisor
Resources	<ul style="list-style-type: none"> • Requests to establish PACs • Information regarding PACs established by affiliates
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Obtain information from affiliates about PACs related to municipal business • Determine whether a PAC is controlled by SAMCO • If controlled by SAMCO, notify persons responsible for the PAC of the applicability of Rule G-37 • Make necessary MSRB filings on behalf of a controlled PAC • For affiliate PACs not controlled by SAMCO or an MFP, establish information barriers and notify affected affiliate and Firm personnel of the barriers, including acknowledgement by affected persons
Record	<ul style="list-style-type: none"> • Requests and reviews of requests • Information regarding affiliate PACs • Review of PACs to determine whether Rule G-37 applies • G-37 filings, as required • Notification of information barriers for affiliate PACs not under control of SAMCO or an MFP and acknowledgement by affected persons

A PAC controlled by SAMCO is subject to the political contribution requirements of Rule G-37. There are factors that may result in an affiliated PAC being viewed as controlled by SAMCO; the MSRB's interpretive guidance should be consulted for specifics. **Compliance should be consulted before a PAC is established related to municipal securities business.**

A summary of factors that indicate potential control of a PAC by SAMCO includes:

- If SAMCO or one of its MFPs is involved in the creation of a PAC (whether solely or together with others), there is a presumption of control unless there is a complete disassociation in any direct or indirect manner.
- The ability to direct or cause the direction of the management or policies of a PAC are potential indicators.
- The level of funding provided by SAMCO or a Firm MFP may indicate control, including potential leveraging of the contribution activities of affiliated PACs.

To avoid conflicts of interest and to comply with G-37, the following information barriers have been established between SAMCO, its MFPs, and any PAC that is not controlled by SAMCO or the MFP, but is controlled by an affiliate of SAMCO.

- SAMCO and its MFPs cannot recommend, nominate, appoint, or approve the management of affiliated PACs.
- The PAC's meeting agenda, meeting schedule, or meeting minutes cannot be shared with SAMCO or firm MFPs.
- There cannot be identification of prior affiliated PAC contributions, planned PAC contributions, or anticipated PAC contributions.

- There is a prohibition on directly providing or coordinating information about prior negotiated municipal securities business, solicited municipal securities business, and planned solicitations of municipal securities business.

Compliance will notify affected affiliate personnel and firm personnel, as necessary. Affected persons will be required to acknowledge in writing their understanding and compliance with the information barriers.

17.15.10 Approval

Responsibility	<ul style="list-style-type: none"> • Compliance Officer
Resources	<ul style="list-style-type: none"> • Requests from employees to make contributions • Proposed Firm or Firm-controlled PAC contributions
Frequency	<ul style="list-style-type: none"> • As required
Action	<ul style="list-style-type: none"> • Review proposed contributions for compliance with Rule G-37
Record	<ul style="list-style-type: none"> • Requests and approval and/or action taken are retained by Compliance

Political contributions by SAMCO, a Firm PAC or an MFP to officials of issuers, PACs, or political parties must be cleared through Compliance prior to making the contribution. In addition, any political activities by MFPs (volunteer work, *etc.*), on behalf of an official of an issuer, must be cleared through Compliance prior to participation.

17.15.11 Prohibited Solicitations And Activities

[MSRB Notice 2005-50]

SAMCO, its MFPs, and any affiliate may not solicit others, including employees, family members, PACs, and any others outside SAMCO, to make contributions to an official of an issuer with which the dealer engages or is seeking to engage in municipal securities business, or to coordinate such contributions. This includes a prohibition against soliciting a person or PAC to make or coordinate a payment to a political part of a state or locality where SAMCO is engaged, or seeking to engage, in municipal securities business.

SAMCO and municipal finance professionals may not engage in fund-raising activities for officials of issuers.

17.15.11.1 Prohibited Indirect Payments

G-37 prohibitions also extend to "housekeeping," "conference," or "overhead" type political party accounts. SAMCO, its PAC, or MFPs cannot contribute indirectly to officials of issuers through these types of accounts when they are prohibited from such contributions directly. Making such contributions, with instructions accompanying the payment that the specific payment is not to be used for the benefit of an official of an issuer, does not ensure the contribution complies with G-37.

17.15.12 G-37 Records To Be Maintained By The Firm

SAMCO is required to maintain information in its files identifying affected employees and the states in which the dealer is engaged or is seeking to engage in municipal securities business; issuers with whom SAMCO is doing and has done business for the past 2 years; and all contributions made to issuer officials subject to Rule G-37, including contributions of affected employees, SAMCO, and any PAC controlled by SAMCO. This does not include the minimal \$250 contributions allowed under the

rule. This will be an internal record subject to scrutiny by regulatory authorities. Records are also not required for affiliate companies and their employees, spouses of covered employees, or any other person or entity unless the contributions were directed by persons or entities subject to Rule G-37. These records will be retained for six years per MSRB Rules G-8 and G-9.

17.15.13 Quarterly Report

SAMCO will file Form G-37 by the last day of the month following each calendar quarter (January 31, April 30, July 31, and October 31), as required. SAMCO is not required to file a report under the No Business Exemption of MSRB Rule G-37 for the calendar quarter if:

- SAMCO has not engaged in municipal securities business; and
- there are no reportable political contributions to issuer officials or payments to state and local political parties.

The following procedures apply:

- The designated supervisor is responsible for determining if a report is required or whether the No Business Exemption obviates the need for filing.
- Employees subject to political contribution reporting will complete a quarterly certification regarding their contributions during the quarter to be reported.
- Form G-37 will be completed and signed by the appropriate supervisor.
- Two copies will be sent to the MSRB by certified or registered mail or by some other method where a receipt of sending is retained or required. G-37 information will be submitted electronically.
- A copy of the signed form and proof of sending is retained in a file for Form G-37.

18 GOVERNMENT SECURITIES

This chapter outlines general requirements when offering government securities to customers.

18.1 Government Securities Act Amendments Of 1993

The original Government Securities Act was limited in scope. The amendments of 1993 gave authority to the SEC to oversee certain aspects of the governments markets and imposed requirements on broker-dealers selling government securities. This section summarizes key sections of the amendments.

18.1.1 Sections 102, 105, and 106 - Rulemaking Authority

These sections grant regulators the authority to establish rules governing the sale of government securities.

18.1.2 Section 103 - Transaction Records

SAMCO is obligated to prepare and maintain records regarding its government securities transactions. Books and records requirements are included in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*.

18.1.3 Section 104 - Large Position Reporting

The designated supervisor is responsible for ensuring large position reports are filed with the Treasury Department as required.

18.1.4 Section 107 - Market Information

Regulators are directed to provide for timely dissemination of market information about government securities.

18.2 Sales

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records• Transaction reports
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review transactions for appropriate markups/markdowns, suitability of transactions• Contact trader or RR for questioned transactions• Take correction action which may include adjusting the trade, conferring with Compliance, or other appropriate action
Record	<ul style="list-style-type: none">• Initials and date reviewed on available transaction reports or order records; notations of action taken where appropriate• Notations in Daytimer or supervisor's log

The general sales practice procedures included in the chapters *ACCOUNTS* and *ORDERS* apply to the sales of government securities. Also refer to the chapter *COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)* for specific policies affecting CMOs.

18.3 Government Sponsored Enterprise (GSE) Distributions

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Agreements with GSEs• Master Agreements• Records of orders
Frequency	<ul style="list-style-type: none">• As required when participating in an offering
Action	<ul style="list-style-type: none">• Complete agreements or other documents required by GSE, if applicable• Execute Master Agreements, when applicable• Designate contact persons responsible for distributing printed documents and/or access to electronic versions• Obtain and distribute offering documents in accordance with Guidelines• Provide offering documents to REMIC purchasers for the period up to 120 days after settlement (including secondary market transactions)• Provide training to RRs regarding distributions of GSEs, required documents
Record	<ul style="list-style-type: none">• Distribution report• Records of compliance with Primary Dealer GSE requirements (if applicable)• Master Agreements• Designation of contact persons• Record of to whom offering documents are provided• Order records for all purchases and unfilled orders• Records of training including how conducted, when occurred, materials used, who attended/received materials

GSEs are quasi-governmental organizations that are corporate entities created under U.S. law. GSEs are instrumentalities and not agencies of the U.S. As such, they are privately owned institutions not subject to U.S. general management laws and regulations and are supervised but not directly managed by the federal government. They primarily act as financial intermediaries to assist borrowers in housing and agriculture. GSE securities are not guaranteed by the federal government.

The term "securities" in this section refers to securities issued by GSEs.

18.3.1 Definitions

Following are selected definitions for terms used in this section. Other definitions (and expanded definitions of the following terms) are included in SIFMA's *Guidelines on Delivery of Offering Materials Relating to GSE Securities*.

Distribution period: The period of time when a dealer acts as underwriter or offers or sells securities constituting the whole or a part of an unsold allotment to distribution participants. With respect to the sale of a Single Class Security or Mortgage-Backed Security by a dealer, the later of (a) 90 days following issue date or (b) the end of the period in which the dealer is acting as underwriter.

Issue date: For any Single-Class Security or Mortgage-Related Security, the first day of the calendar month that includes the settlement date for the initial issuance of the security.

Notice of offering: A notice provided by the Principal Dealer to offerees of securities regarding the availability of offering documents and how they may be accessed.

Notice of sale: A notice prepared by the Principal Dealer to purchasers of securities regarding offering documents.

Principal Dealer: Any dealer acting as (i) an underwriter; (ii) a member of a primary selling group; (iii) an agent for the issuer under any selling agreement with the issuer; or (iv) a dealer engaged in a swap with the issuer in exchange for Mortgage-Related Securities under an agreement. If the issuer specifies that only one dealer should contact the issuer regarding offering documents, then that dealer is the only Principal Dealer.

18.3.2 Master Agreements

SAMCO, as underwriter, will require other dealers selling GSE securities during the distribution period to execute a Master Agreement where the dealer agrees to provide offering documents in accordance with the *Guidelines*.

When SAMCO executes a Master Agreement with a dealer that sells securities to it, SAMCO will comply with all requirements regarding delivery of offering documents.

18.3.3 Delivery Of Offering Materials

[SIFMA Guidelines on Delivery of Offering Materials Relating to GSE Securities:
<http://www.sifma.org/news/news.aspx?id=1880>]

The delivery of offering documents will comply with SIFMA's *Guidelines on Delivery of Offering Materials Relating to GSE Securities*. This includes the following:

- If acting as Principal Dealer:
 - Request that the issuer or its agent deliver to SAMCO (and to other dealers, if the issuer agrees to deliver to other dealers) a specific number of printed offering documents. The issuer may deliver an electronic version in lieu of printed copies.
 - Deliver to the dealers to whom it sells securities during the distribution period the requested number of documents unless the issuer delivers them directly.
- Request from the Principal Dealer an adequate number of offering documents to provide to purchasers and others who request documents.
- During the distribution period, deliver the Notice of Offering to each offeree who requests documents and the Notice of Sale and confirmation (which may be the same document) to each purchaser and a copy of the offering documentation to any offeree or purchaser who requests a copy. If a confirmation is sent before all information required to be included in the Notice of Sale is available, the confirmation will note (if the offering documentation was not previously provided) that a Notice of Sale will be sent promptly when the information is available.
- SAMCO will designate one or more contact persons as responsible for providing electronic access to offering documents and distribution of printed materials and notify other dealers with whom it does business.
- For all new issues of REMICs, whether or not SAMCO participates in the underwriting, SAMCO will provide purchasers with offering documents for the period up to 120 days after settlement. This includes secondary market transactions in the new issue for the 120-day period.

18.3.4 Order Records

All orders must be recorded including identification of the customer and the date and time the order was entered. Records of orders must be retained whether or not the order is filled.

18.3.5 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.

18.3.6 Distribution Report

SAMCO will prepare a distribution report identifying the allocation of orders and purchasers.

18.3.7 Single Class TBAs

[SIFMA Guidelines on Delivery of Offering Materials Relating to GSE Securities:
http://www.sifma.net/agrees/gse_sec_gdlines.pdf]

Confirmations sent during the distribution period for single class TBAs will include a notation that "Additional pool information is available to each purchaser by telephoning *[issuer's phone number]* or by emailing *[issuer's email address]*."

18.4 Trading

18.4.1 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.

18.4.2 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 SAMCO 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 SAMCO's business
- any other relevant facts at time of execution

18.4.3 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 SAMCO
- the amount of any other compensation received by SAMCO in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

18.4.4 Inventory Positions

SAMCO has established guidelines for maintaining inventory positions. The designated supervisor is responsible for monitoring positions daily to ensure limits are maintained.

18.4.5 Review Of Transactions

The designated supervisor is responsible for daily review of transactions executed in government securities trading area(s).

18.5 Transaction Records

[GSA Section 103; SEC Securities Exchange Act of 1934 Section 15C(d)(3)]

Records of government securities transactions will be provided to the SEC or other appropriate regulator upon request, in a form acceptable to the regulator. A record will be retained of transaction information provided to regulators.

18.6 Large Position Reporting

[GSA Section 104; SEC Securities Exchange Act of 1934 Section 15C(f)]

Periodically, the Treasury Department asks government securities dealers to provide information on large positions in specific issues of government securities. The designated supervisor (or someone delegated by the supervisor) is responsible for compiling the information and submitting it to the Treasury Department by the date due. Records of all reports filed will be retained in the supervisor's files.

A sample of the Large Position Report is available at:

<http://www.treas.gov/press/releases/docs/FormulaSampleReport.doc>

18.7 Prohibited Activities

18.7.1 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 effect a transaction based on material non-public information about the issuer of that security.

18.7.2 Financial Arrangements

Traders are prohibited from entering into financial arrangements with customers (*i.e.*, sharing in profits or losses, sharing in commissions, rebating commissions, *etc.*).

18.7.3 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.

18.7.4 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.

18.7.5 Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

18.7.6 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.

19 COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Transaction reports or order records
Frequency	<ul style="list-style-type: none">• Daily
Action	<ul style="list-style-type: none">• Review for suitability of purchases• Obtain signed disclosure statement from customer where appropriate
Record	<ul style="list-style-type: none">• Initials and date reviewed on available transaction reports or order records; notations of action taken where appropriate• Notations in Daytimer or supervisor's log

19.1 Introduction

CMOs are identified in this separate section because of certain special requirements under the rules. CMOs may be government, municipal, or corporate securities.

19.2 Characteristics And Risks

CMOs have characteristics that RRs must be acquainted with in order to assess the suitability of them for investors who also should be aware of these characteristics prior to investing. Following is a list of key characteristics, which are different among various CMO issues.

- Underlying mortgage payments may be unpredictable and variable which may cause either an earlier than anticipated return of principal or a holding period longer than anticipated.
- There is reinvestment risk associated with early prepayments and various tranches of the same issue have different risk profiles.
- There is significant risk associated with less predictable tranches which subject customers to the possibility of losing their entire principal.
- The time to maturity, as well as the amount of principal returned, will vary based on the accuracy of prepayment assumptions.
- Prepayment assumptions are estimates based on historical prepayment rates and are factored into the price, yield and market value of a CMO.
- The more complex and esoteric the issue, the less likely it is that there will be current pricing information available or a ready market for the security.

19.2.1 Interest Only Securities (IOs)

Investors must be aware that an IO tranche is:

- Created deliberately to pay investors only interest;
- Sold at a deep discount to the principal amount;
- Has no face or par value and increases in value as interest rates rise and prepayment rates slow;
- Decreases in value as interest rates decline; and
- Investors may receive less cash than the original investment.

19.2.2 Principal Only Securities (POs)

Investors must be informed that POs:

- Are created so that investors receive only principal payments generated by the underlying collateral;
- Are extremely sensitive to prepayment rate increases; and
- Sell at a deep discount from face value and investors ultimately receive the entire face value.

19.2.3 Floating Rate Tranches (Floaters) and Inverse Floaters

Investors should be advised that:

- Floaters carry interest rates that are tied in a fixed relationship to an interest rate index such as LIBOR or COFI and are subject to an upper limit or "cap" and sometimes to a lower limit or "floor;" and
- Performance of these investments depends on the way interest rate movements affect prepayment rates and average lives.

Investors must be informed that inverse floaters (IFs) are:

- Structured to offset floating-rate tranches, and therefore interest rate payments on IFs vary inversely from the index selected;
- More highly leveraged than other tranches and therefore have a higher price volatility as interest rates move; and
- Only suitable for sophisticated investors with a high risk profile.

19.2.4 Accrual Bonds Or Z-Tranches

The final tranche of a CMO is often structured as a Z-tranche or accrual bond and has the following characteristics:

- Investors receive no cash for an extended period of time, instead they accrue interest which is not paid out until all other tranches are retired.
- Prices can fluctuate wildly and depend on other aspects of the offering.
- Interest is taxable when credited, even though no actual payment will occur.
- The suitability of an investment must be evaluated based on the combination of the Z-tranche with other investments, as well as the investor's risk profile.

19.3 Suitability

As for all recommendations, RRs have an obligation to determine suitability when recommending CMOs to individuals. The RR has the obligation to understand the features of CMOs before recommending them. Because of the wide range of features and potential complexity of some CMOs, the following must be considered:

- Customer's financial status including liquid net worth and income
- Customer's experience in investing in CMOs and his or her ability to understand the features including prepayment risk
- Customer's risk profile
- Customer's investment objectives, particularly the need for cash flow
- Features of the CMO and how they fit the customer's needs
- Disclosure of risks (see the following sections on *Required Education Material* and *Inverse Floaters, IOs, POs Disclosure*)

In addition, RRs must consider market factors affecting CMOs at the time they are recommended. For example, in a low-interest, low-yield environment there may be a considerable compression of risk premium where investors bid up prices and drive down yields while default rates remain high compared to historical norms.

19.4 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.

19.5 Required Education Material

[FINRA Rule 2216(b)(2)]

Prior to the sale of a CMO to a customer other than an institutional investor, the customer must be provided with education material about CMOs. FINRA has stated that the Securities Industry And Financial Markets Association (SIFMA) publication "An Investor's Guide To Collateralized Mortgage Obligations" (the "SIFMA brochure") satisfies those disclosure requirements.

The SIFMA brochure will be provided to all purchasers of CMOs.

19.6 Inverse Floaters, IOs, POs Disclosure

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.

19.7 Communications With The Public

[FINRA Rule 2216]

19.7.1 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 other 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."

19.7.2 Disclosures

Communications (including retail communications, institutional communications, and correspondence) regarding CMOs must include the following disclosures and may not include certain statements. Because the requirements are extensive, all written (including electronic) communications about CMOs must be approved by Compliance prior to sending to retail investors.

- Communications must include, within the name of the product, the term "Collateralized Mortgage Obligation;"
- CMOs must not be compared to CDs, treasury bonds, or other securities with fixed interest rates and stated maturities;
- communications must disclose, as applicable, that a government agency backing applies only to the face value of the CMO and not to any premium paid; and,
- communications must disclose that a CMO's yield and average life will fluctuate depending on the actual rate at which mortgage holders prepay the mortgages underlying the CMO and changes in current interest rates.
- There should be no assurance that the CMO will prepay principal at the current assumed rate; timing may vary significantly.

In addition to the above, FINRA has established standards for communications that promote a specific security or contain yield information. These requirements are complex and Compliance should be consulted when preparing this type of communication.

19.7.3 Radio/Television Advertisements

FINRA rules specify oral disclaimers that must be included in any radio or television advertisements about CMOs. Compliance should be consulted prior to creating or committing air time for such advertisements.

19.7.4 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's or comparable reports provided to customers should be reviewed and retained by the designated supervisor.

19.8 Trading

19.8.1 Fair Prices

[NASD Rule 2440]

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.

19.8.2 Mark-Ups And Mark-Downs

[NASD IM 2440]

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 SAMCO 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 SAMCO's business
- any other relevant facts at time of execution

19.8.3 Commissions On Agency Transactions

[NASD Rule 2440]

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 SAMCO
- the amount of any other compensation received by SAMCO in connection with the transaction

- factors considered in principal transactions
- any other relevant factors at the time of execution

19.8.4 Inventory Positions

SAMCO has established guidelines for maintaining inventory positions. The designated supervisor is responsible for monitoring positions daily to ensure limits are maintained.

19.8.5 Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account. Errors in customer accounts are documented on the Cancel and Rebill/Error Report form which requires a designated principal's approval.

19.8.6 Cancels And Rebills

[FINRA Rule 4515]

Cancellations and rebills in customer accounts are documented on the Cancel and Rebill/Error Report form which requires a designated supervisor's signature.

19.8.7 Traders' Personal Accounts

- Traders may not effect personal transactions in CMOs from a Firm inventory account. Purchases or sales must be made on an agency basis with other dealers.

19.9 Prohibited Activities

19.9.1 Inside Information

[Insider Trading and Securities Fraud Enforcement Act of 1988; SEC Securities Exchange Act of 1934 Rule 10b-5; FINRA Notice to Members 89-15]

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 SAMCO proprietary account or employee account may effect a transaction based on material non-public information about the issuer of that security.

19.9.2 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.*).

19.9.3 Market Manipulation

[SEC Securities Exchange Act of 1934 Rule 10b-3; FINRA Rule 2020]

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.

19.9.4 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.

19.9.5 Secret Profits

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

19.9.6 Adjusted Trading

[NASD Regulatory and Compliance Alert Fall 1993]

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.

19.10 Review Of Transactions

[NASD Rule 3010]

The designated supervisor is responsible for daily review of transactions in CMOs.

19.11 Confirmations

[SEC Securities Exchange Act of 1934 Rule 10b-10]

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.

20 INDEPENDENT CONTRACTORS

[FINRA Notice to Members 01-80, 99-45, 98-38 and 86-65]

Responsibility	<ul style="list-style-type: none">• Designated Supervisor
Resources	<ul style="list-style-type: none">• Order records or transaction reports for review of sales activities
Frequency	<ul style="list-style-type: none">• At time of hire - obtain contracts• Daily - supervise sales activities
Action	<ul style="list-style-type: none">• Obtain necessary IC contract• Review daily transactions and take corrective action where necessary
Record	<ul style="list-style-type: none">• IC contracts retained in files by IC• Initials and date of review on order records or transaction reports reviewed

20.1 Independent Contractor Defined

Certain individuals are associated with SAMCO as "independent contractors" as defined under current IRS guidelines. Independent contractors are not "employees" of SAMCO for purposes of compensation and other considerations under IRS guidelines.

20.2 Supervision

Independent contractors are subject to the supervision of SAMCO and are responsible for complying with SAMCO's policies and procedures and the rules and regulations governing the activities of SAMCO and its associated persons.

20.3 Agreements

RRs who are independent contractors (ICs) will, at the time of association with SAMCO, sign SAMCO's agreement outlining the conditions under which the IC provides services to SAMCO. No commission or other payments will be made to the IC until a signed agreement is on file. The designated supervisor is responsible for ensuring signed agreements are submitted to SAMCO prior to any payments to the IC.

20.4 Use And Display Of The Firm's Name

SAMCO's name may be used only in conjunction with the products or services provided by SAMCO. SAMCO's letterhead may be used only for correspondence related to SAMCO's business.

SAMCO's name may be displayed only in authorized locations and in a manner approved by SAMCO.

20.5 Display Of SIPC Symbol

In authorized branch locations, the SIPC symbol will be displayed. Compliance is responsible for identifying the office locations that require the necessary SIPC display.

20.6 Use Of Other Names

SAMCO does not allow independent contractor RRs to use other names in conjunction with their securities business.

20.7 ICs As Investment Advisers

[NASD Rule 3040; FINRA Notice to Members 96-33, 94-44 and 91-32]

ICs or their business entities may be independently registered as investment advisers, however, the investment adviser activities are subject to the supervision of SAMCO. Independent registration as an investment adviser also requires the approval of SAMCO prior to engaging in investment adviser activities. Requests for approval should be submitted to Compliance for review and approval and include the following:

- the name under which the investment adviser activity will be conducted
- a copy of Form ADV for the adviser

Compliance may request other information, as necessary, to complete its review of the request. Compliance will retain a copy of the request and the approval or disapproval.

If approved, the IC is required to provide copies of the following information to the designated supervisor on an ongoing basis:

- all investment adviser agreements with adviser customers, within 10 days of receipt by the adviser
- correspondence regarding investment adviser activities
- reports to adviser customers

In addition, the IC will maintain copies of all trading activity (confirmations and statements) in investment adviser accounts for review by SAMCO when the IC's activities are inspected by SAMCO.

20.8 Outside Business Activities And Outside Accounts

[FINRA Rule 3270; NASD Rule 3050]

As stated previously, ICs are subject to all provisions of the Firm's policies and procedures. Independent contractor status does not relieve the individual from complying with the requirements to disclose and obtain approval of all outside business activities and outside securities accounts. The chapter *GENERAL EMPLOYEE POLICIES* includes the policies in these and other areas affecting all individuals associated with SAMCO.

20.9 Exempt Insurance Products And Equity-Indexed Annuities

[FINRA Notice to Members 05-50]

Before offering insurance products that do not require securities registration (exempt products), the RR must submit a request to Compliance for approval to sell the exempt product including a description of the product and the issuer. Compliance will review the request and notify the RR and the RR's supervisor whether the request is approved or disapproved.

Policies regarding the sale of Equity-Indexed Annuities (EIAs) (which may be registered or unregistered) are included in the chapter *INSURANCE PRODUCTS* in the section *Equity-Indexed Annuities*.

Written Supervisory Procedures Manual

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