Supervision and Supervisory Controls

FINRA Small Firm Conference
December 10 – 11, 2014 • San Francisco, CA

Speakers

- **Moderator:**
  - Patricia Albrecht, FINRA Member Relations and Education

- **Panelists:**
  - Mark Cresap, Cresap Inc.
  - Harry Striplin, Umpqua Investments
FINRA Rule 3130 (Annual Certification of Compliance and Supervisory Processes)

**Purpose**
- Promote regular and meaningful interaction between senior management and compliance personnel to ensure that compliance is given the highest priority by a member’s senior executive officers.
- Highlight important role of CCO as the primary compliance advisor to the firm and an indispensable party to enabling the CEO to reach the conclusions in the certification.

**Requirements**
- Designate CCO and Complete CEO Certification
- Prepare Rule 3130 Report and Present to Board of Directors and Audit Committee (or Equivalent Bodies)

Overview of FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System)

**Effective: December 1, 2014**

**Rule 3110 (Supervision)**
- 3110(a): Supervisory System
- 3110(b): Written Procedures
- 3110(c): Internal Inspections
- 3110(d): Transaction Review and Investigation
- 3110(e): Definitions of Branch Office, OSJ, Business Day

**Rule 3120 (Supervisory Control System)**
- 3120(a): Testing and Verification
- 3120(b): Additional Content Requirement
FINRA Rule 3110(a) (Supervisory System)

- FINRA Rules 3110(a)(4) and 3110.03
  - OSJ Supervision
    - Retains requirement to have at least one principal for each OSJ.
    - Supplementary material requires designated OSJ principal to have a physical presence, on a regular and routine basis, at the assigned OSJ.
    - General presumption – a principal will not be designated and assigned to be the on-site principal for more than one OSJ.
    - Firm must consider certain factors if firms assign the principal to more than one OSJ.

FINRA Rule 3110(b) (Written Procedures)

- FINRA Rules 3110(b)(2) and 3110.05
  - Principal review of all securities transactions:
    - Retains requirement that a principal review of all transactions; but allows firms to use a risk-based reviews.
    - A reasonably designed risk-based review system will provide the firm with sufficient information to enable the firm to focus on the areas that pose the greatest number and risks of violation.
    - Principal must review parameters and is responsible for any deficiency in the system’s criteria.
FINRA Rule 3110(b) (Written Procedures)

**FINRA Rules 3110(b)(4) and 3110.06**
- Review of correspondence and internal communications:
  - Retains requirement to capture and review correspondence to properly identify and handle customer complaints, instructions, and funds and securities.
  - Capture and review correspondence and internal communications that are of a subject matter that require review under FINRA rules and federal securities laws. For example:
    - Communications between research and non-research personnel.
    - The identification and reporting to FINRA of customer complaints.
  - Risk-based review of communications falling outside those subject matters.

**FINRA Rule 3110(b)(5)**
- Review of Customer Complaints
  - Capture, acknowledge and respond to all written (including electronic) customer complaints.
  - Oral complaints are not included because they are difficult to capture and assess and may raise competing views as to the substance of the complaint.
  - However failure to address any customer complaint, written or oral, may be a violation of violation of FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade).
    - Consider providing customers with a format to communicate complaints in writing. customers to communicate their complaints in writing.
FINRA Rule 3110(b) (Written Procedures)

- **FINRA Rules 3110(b)(6) and 3110.10**
  - **Review of Supervisory Personnel**
    - Eliminates supervision of producing managers and heightened supervision for producing managers reaching a certain revenue threshold.
    - Supervisory personnel cannot supervise own activities or supervise someone who he reports to or who determines his compensation or employment.
      - Limited exception for sole proprietors and senior executives. No requirement to notify FINRA if relying on the exception.
    - Procedures to prevent conflicts of interest from compromising standards of supervision.
      - No strict liability to eliminate all conflicts.

FINRA Rule 3110(c) (Internal Inspections)

- **FINRA Rules 3110(c)(1) and 3110.13**
  - **Mandatory Inspection Cycles**
    - Retains requirements that the firm review:
      - businesses, at least annually (calendar-year basis);
      - OSJs and supervisory branch offices at least annually (calendar-year basis);
      - Non-supervisory branch offices, at least every three years; and
      - Non-branch locations on a regular periodic schedule.
      - General presumption a non-branch location will be inspected at least every three years.
FINRA Rule 3110(c) (Internal Inspections)

■ FINRA Rule 3110(c)(2)
  • Inspection Report Contents
    – Relocates NASD Rule 3012’s requirements regarding the review and monitoring of specified activities.
    – A firm must test and verify a location’s supervisory policies and procedures for:
      ▪ safeguarding customer funds and securities;
      ▪ maintaining books and records;
      ▪ supervision of supervisory personnel;
      ▪ transmittals of funds or securities from customer accounts; and
      ▪ changes of customer account information, including address and investment objectives changes, and validation of such changes.

FINRA Rule 3110(c) (Internal Inspections)

■ FINRA Rules 3110(c)(3) and 3110.14
  • Associated Persons Conducing Office Inspections
    – Can’t conduct location inspections if assigned to the location or supervised by or reporting to someone at the location.
      ▪ Limited exception for one-person shop or independent contractor business model.
    – Firm must have procedures preventing inspection from being compromised due to the conflicts of interest that may be present.
      ▪ No strict liability to eliminate all conflicts.
FINRA Rule 3110(e) (Transaction Review and Investigation)

Insider Trading Transaction Review and Investigation

- Review specific accounts for insider trading and investigate identified trades where a violation may have occurred.
- Investment banking firms must report those investigations to FINRA.
- Accounts to be reviewed are:
  - Accounts of the firm;
  - APs’ accounts FINRA rules require to be disclosed;
  - Accounts introduced or carried by the firm:
    - Belong to AP’s spouse or child (if financially dependent or resides in same household);
    - AP has beneficial interest or investment discretion; or
    - AP has control and belongs to other related individual or individual who associated person provides material financial support.

FINRA Rule 3120 (Supervisory Control System)

Supervisory Control System

- Retains NASD Rule 3012’s testing and verification and annual reporting requirements.
- New additional content requirements for firms meeting $200 million gross revenue threshold:
  - Tabulation of customer complaints and internal investigations reports made to FINRA during the preceding year; and
  - The preceding year’s compliance efforts in specific areas, such as:
    - Trading and market activities;
    - Investment banking activities;
    - Antifraud and sales practices;
    - Supervision; and
    - Anti-money laundering.
2014 RWS New Hire Checklist Forms

Check off each item below when documentation is in the file or task has been completed.

Pre-Hire
- CRD Pre-Hire Authorization Form / Review
- Background Investigation Authorization Form / Review
- RWS Employee Information Form

Compliance
- Outside Brokerage Accounts
- Private Securities Transactions
- Outside Business Activities
- Fixed Income Trading In Personal Accounts Policy
- Insider Trading Memorandum and Policy
- Gifts & Gratuities and Expense Reporting Policies
- Technology Use Policies
- BIG - Fingerprint (website link for new employee to schedule their appt.)
- U4 Review and signature for new filing

Human Resources
- Job Offer Letter (fully executed)
- Confidentiality and Employment Agreement (fully executed)
- Employee Manual given and acknowledgement received
- Insurance Plan Summaries delivered to new hire
  (enrollment or waiver received by H/R: medical, dental/vision, ST/LT disability)
- 401(k) Plan Summary and Enrollment Forms

Trading Related
- Trading Policies & Procedures Manual given and acknowledgement received

Accounting
- W-4
- I-9 = Employee Ineligibility Verification
- Direct Deposit paperwork completed and returned (for payroll)
Non Form Checklist

Check off each item below when documentation is in the file or task has been completed.

Information Technology
- Order and install computer system and two monitors (standard)
- Order phone, if necessary
- Order and install Hoot & Holler (app, mic, speakers)
- Add new hire to the Ventrilo list of users (state abbrev, then name)
- Order and set up Bloomberg (add user name/password to master file)
- Install VPN on new hire workstation (add user name/password to master file)
- Install LogMeIn on new workstation (add user name/password to master file)
- RWSBROKER.COM Email set-up (add user name/password to master file)
- Add new hire to RWS email distribution lists (through Outlook)
- Set new hire up on MuniBrokers trading platform (add user name/password to master file)
- Send system report access authorization level information to IT
- Add new hire to RWS disaster recovery website

Website
- Add employee to RWSBROKER.COM website
- Make appointment for employee to have photo taken for RWS website
- Add photo to website
- Post press release to the website, if applicable

Accounting
- Set up new hire in ExpenseWire (for expense reporting purposes)

Compliance
- Set-up email address on email archiving system
- Review prior U5 filing (new supervisory rules eff 12/1/14)
- Assign new hire to a principal and office
- Add new hire to Org Chart
- Add new hire to BCP/DR Call Tree

Operations
- Set up new hire at Southwest Clearing

Other
- Announce new hire to the RW Smith team (internal announcement)
- Announce new hire to service company employees (ops/IT/acctg/comp)
- Publish press release to BusinessWire, if applicable
- Add new hire to the RWS Employee Listing report set (trading desks rpt, email rpt, etc.)
- Add new hire to the RWS Employee Information Worksheet
- Order business cards
- Account Assignment package finalized, signed off and shared with company
- Send RWS forms to new hire (email attachments): new account forms, vacation/PTO, etc.
- Set up Office Access for new hire: office key, building pass, etc.
## Background Investigation Authorization

**IMPORTANT - PLEASE READ CAREFULLY BEFORE SIGNING ACKNOWLEDGEMENT**

In connection with your employment, application for employment, or temporary agency/contractor assignment with RW Smith & Associates, Inc. ("RWS") may, upon execution of this authorization, investigate the information contained in this form, your application, and other relevant background information to determine whether you are a suitable candidate for employment, promotion, position re-assignment or contract. Therefore, RWS will request your consumer report from a third party agency. The scope of the consumer report requested by RWS may include information relating to academic achievement, employment history, criminal history, credit history, and Social Security Number verification. The purpose of the background investigation is to solely determine employment eligibility at RWS.

If you do not authorize RWS to conduct your background investigation, you will not be considered for employment, promotion, re-assignment or contract. If so, your application may be withdrawn, you may be removed from your position or your contract may be terminated, if applicable.

You have the right, upon written request made within a reasonable time (not to exceed 30 days) after receipt of this notice, to obtain information from RWS:
- as to whether an investigative consumer report has been requested;
- if an investigative consumer report has been requested, written disclosure of the nature and scope of the investigation requested, and;
- the name and address of the outside agency to whom requests for any of these reports have been made.

If the consumer report, in whole or in part, supports making an adverse decision affecting your employment or contract, RWS will provide to you, before making the adverse decision, a copy of the consumer report and a description in writing of your rights under the Fair Credit Reporting Act.

If you are ineligible for employment or your background is unacceptable to RWS, RWS may not hire you or may remove you from your position, assignment or terminate your contract. If this information is retained, it will be kept confidential and separate from your personnel file, if you are hired.

Please complete the form below:

<table>
<thead>
<tr>
<th>□ Applicant</th>
<th>□ Temporary Agency Personnel/Contractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Name — Last, First, MI</td>
<td>Social Security Number</td>
</tr>
<tr>
<td>Other Names You Have Used — Last, First, MI</td>
<td>Date of Birth</td>
</tr>
</tbody>
</table>

### Residence Data:
Beginning with your current address, list all addresses where you have resided in the last ten years.

<table>
<thead>
<tr>
<th>Dates – From/To</th>
<th>Street Address</th>
<th>City, State, Zip Code</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

Have you ever committed an act or been convicted, participated in a pre-trial diversion program, or are there any pending judgments involving you in connection with a criminal offense involving but not limited to dishonesty, theft, perjury, sale of drugs, embezzlement, rape, murder, forgery, robbery, etc. in the United States or in another country?  

□ Yes  □ No  If yes, clarify: __________________________________________

**Acknowledgment and Authorization**

I acknowledge receipt of this BACKGROUND INVESTIGATION NOTICE, as set forth above, and certify that I have read and understand these disclosures. I authorize RWS or its representative to obtain a “consumer report” or other background information used in connection with RWS's consideration of me for employment, promotion, position reassignment or contract. I acknowledge that a telephonic facsimile or copy of this release shall be as valid as the original. This authorization is valid for any consumer report requested at any time during the tenure of my employment or during the contractual relationship. This release is valid for all federal, state, county and local agencies and authorities. I understand that I have the right to make a written request within a reasonable period of time for complete and accurate disclosure of information concerning the nature and scope of the investigation.

I certify that all my answers on this Authorization are true and complete. I understand that the falsification, omission or misrepresentation of fact on this Authorization (or any other accompanying or required documents) may be cause for denial of employment or immediate termination of employment if hired, regardless of when or how discovered.

<table>
<thead>
<tr>
<th>Applicant's Signature</th>
<th>Driver's License Number/State</th>
<th>If under 18 Parent's Signature</th>
<th>Date</th>
</tr>
</thead>
</table>
PUT LOGO HERE  A SUMMARY OF YOUR RIGHTS UNDER THE FAIR CREDIT REPORTING ACT

The federal Fair Credit Reporting Act (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of every “Consumer Reporting Agency” (CRA). Most CRAs are credit bureaus that gather and sell information about you—such as if you pay your bills on time and or have filed bankruptcy—to creditors, employers, landlords, and other businesses. You can find the complete text of the FCRA, 15 U.S.C 1681-1681u, at the Federal Trade Commission’s web site (http://www.ftc.gov). The FCRA gives you specific rights, as outlined below. You may have additional rights under state law.* You may contact a state or local consumer protection agency or state attorney general to learn those rights.

*For example, in California, the Credit Reporting Agencies Act, Civil Code 1785.20.5, states that prior to requesting a consumer credit report, the employer shall notify, in writing, the person involved. The notice shall inform the person that a report will be used and the source of the report, and shall contain a box that the person may check off to receive a copy of the credit report. If the person states his or her wish to receive a report, the CRA must provide the consumer report.

You can find out what is in your file. At your request, a CRA must give you the information in your file, and a list of everyone who has requested it recently. There is no charge for the report if a person has taken action against you because of information supplied by the CRA, if you request the report within 60 days of receiving notice of the action. You are also entitled to one free report every twelve months upon request if you certify that (1) you are unemployed and plan to seek employment within 60 days, (2) you are on welfare, or (3) your report is inaccurate due to fraud. Otherwise, a CRA may charge you up to eight dollars.

You can dispute inaccurate information with the CRA. If you tell a CRA that your file contains inaccurate information, the CRA must investigate the items (usually within 30 days) by presenting to its information source all relevant evidence you submit, unless your dispute is frivolous. The source must review your evidence and report its findings to the CRA. (The source also must advise national CRAs—to which it has provided the data—of any error.) The CRA must give you a written report of the investigation and a copy of your report if the investigation results in any change. If the CRA’s investigation does not resolve the dispute, you may add a brief statement to your file. The CRA must normally include a summary of your statement in future reports. If an item is deleted or a dispute statement is filed, you may ask that anyone who has recently received your report be notified of the change.

Inaccurate information must be corrected or deleted. A CRA must remove or correct inaccurate or unverified information from its files, usually within 30 days after you dispute it. However, the CRA is not required to remove accurate data from your file unless it is outdated (as described below) or cannot be verified. If your dispute results in any change to your report, the CRA cannot reinsert into your file a disputed item unless the information source verifies its accuracy and completeness. In addition, the CRA must give you a written notice telling you it has reinserted the item. The notice must include the name, address and phone number of the information source.

You may dispute inaccurate items with the source of the information. If you tell anyone—such as a creditor who reports to a CRA—that you dispute an item, they may not then report the information to a CRA without including a notice of your dispute. In addition, once you’ve notified the source of the error in writing, it may not continue to report the information if it is, in fact, an error.

Outdated information may not be reported. In most cases, a CRA may not report negative information that is more than seven years old; ten years for bankruptcies.

Access to your file is limited. A CRA may provide information about you only to people with a need recognized by the FCRA—usually to consider an application with a creditor, insurer, employer, landlord, or other business.

Your consent is required for reports that are provided to employers, or reports that contain medical information. A CRA may not give out information about you to your employer, or prospective employer, without your written consent. A CRA may not report medical information about you to creditors, insurers, or employers without your permission.

You may choose to exclude your name from CRA lists for unsolicited credit and insurance offers. Creditors and insurers may use file information as the basis for sending you unsolicited offers of credit or insurance. Such offers must include a toll-free phone number for you to call if you want your name and address removed from future lists. If you call, you must be kept off the lists for two years. If you request, complete, and return the CRA form provided for this purpose, you must be taken off the lists indefinitely.

You may seek damages from violators. If a CRA, a user or (in some cases) a provider of CRA data, violates the FCRA, you may sue them in state or federal court.

The FCRA gives several different federal agencies authority to enforce the FCRA:

<table>
<thead>
<tr>
<th>FOR QUESTIONS OR CONCERNS REGARDING</th>
<th>PLEASE CONTACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRA’s, creditors and others not listed below</td>
<td>Federal Trade Commission Consumer Response Center – FCRA Washington, DC 20580 202/326-3761</td>
</tr>
<tr>
<td>National banks, federal branches/agencies of foreign banks (word “National” or initials “N.A.” appear in or after bank’s name)</td>
<td>Office of the Comptroller of the Currency Compliance Management, Mail Stop 6-6 Washington, DC 20219 800/613-6743</td>
</tr>
<tr>
<td>Federal Reserve System member banks (except national banks, and federal branches/agencies of foreign banks)</td>
<td>Federal Reserve Board Division of Consumer &amp; Community Affairs Washington, DC 20551 202/452-3693</td>
</tr>
<tr>
<td>Savings associations and federally chartered savings banks (word “Federal” or initials “F.S.B.” appear in federal institution’s name)</td>
<td>Office of Thrift Supervision Consumer Programs Washington, D.C. 20552 800/842-6929</td>
</tr>
<tr>
<td>Federal credit unions (words “Federal Credit Union” appear in institution’s name)</td>
<td>National Credit union Administration 1775 Duke Street Alexandria, VA 22314 703/581-6360</td>
</tr>
<tr>
<td>Activities subject to the Packers and Stockyards Act, 1921</td>
<td>Department of Agriculture Office of Deputy Administrator – GIPSA Washington, DC 20250 202/720-7051</td>
</tr>
</tbody>
</table>

Provided by RW Smith
PERMISSION TO REVIEW CRD RECORD: PRE-HIRE CONSENT FORM

Date: ________________

Name: ____________________________________________

CRD: ______________________ (if known)

SSN: ______________________ (required)

Day/Month of Birth: _____ / _____ (required)

Present or Previous Firm: ________________________________

I hereby authorize R. W. Smith & Associates, Inc., and its authorized representatives or agents, to utilize the FINRA CRD system to review the information contained within my CRD records.

I understand that the firm will use this information in deciding whether to extend an offer of employment and that the firm will keep the information confidential.

Any information will be used by RWS for internal use only, will be kept strictly confidential, and shall not be disseminated to any outside parties.

Name (please print)

________________________________________
Signature                                    Date

I acknowledge that I am considering this person for registration or assignment to responsibilities subject to federal law and SEC rules governing statutory disqualification and have obtained and will keep on file this person's written consent to review his/her CRD record for that purpose.

________________________________________
Compliance Signature                         Date
2014 ANNUAL CERTIFICATION: OUTSIDE BUSINESS ACTIVITIES

All associated persons of RW Smith must receive written authorization from the CEO or CCO prior to engaging in any outside business activity ("OBA").

1. Are you an employee, independent contractor, sole proprietor, office, director, or partner of any other entity or person of RW Smith & Associates?
   ☐ YES ☐ NO

2. In the past year, have you received any compensation from any other person or entity other than RW Smith & Associates?
   ☐ YES ☐ NO

Select the applicable statement(s) below:

☐ I do not have any outside business activities to disclose.

☐ I am disclosing an existing outside business activity. [Complete form below]

☐ I am requesting approval for a new outside business activity. [Complete form below]

1. Name of Business/Activity: ______________________________________________________

2. Address/Phone of Business/Activity: ______________________________________________

3. Description of Business: ________________________________________________________

4. Role/Title: __________________________ If Owner, what percentage? ________

5. Approximate Amount of Time Spent on this Activity: ______________________________

6. Do any of your duties/responsibilities involve investment-related activity, including raising capital or issuing debt? If yes, explain: ________________________________________________________________

7. How are you compensated (salary, commission, other)? ______________________________

8. Are your clients also clients of RW Smith? _________________________________________

9. Is your business activity in any way related to the securities industry? __________________

10. Provide any additional pertinent details or information about the outside business activity here: ________________________________________________________________

Associated Person Acknowledgement

By signing below, I certify that all of my outside business activities have been disclosed to RW Smith:

Associated Person Printed Name & Signature __________________________ Date ____________

RW Smith Review: __________________________ (RW Smith will return a copy of the signed approval to you for your records. That copy of the signed approval is your evidence of approval and is your responsibility to retain).

Provided by RW Smith
Complete this form to disclose any new and all existing securities investment accounts. “Account” for purposes of this form is any securities investment account for which you have a financial interest (example: joint, spousal, custodial) or control (example: trustee, power of attorney), including brokerage and investment advisory accounts. Accounts where a third party has discretionary authorization on your behalf must also be disclosed. You do not need to disclose accounts limited solely to investments in unit investment trusts and variable contracts or mutual funds registered under the Investment Company Act of 1940, assuming no other types of securities may be bought or sold in such an account.

All RW Smith associated persons must notify the CCO when opening an outside investment account. Upon receiving notification of the opening of a new account, RW Smith will send a letter to the outside investment firm authorizing the account and requesting duplicate statements.

RW Smith generally prohibits associated persons from participating in the bidding of bonds for their own investment accounts on RW Smith bid wanted items; any exception to this policy requires written pre-approval and written sign-off by the CCO or CEO. (See RWS Policy on "Fixed Income Trading In Personal Accounts")

Acknowledgement

By signing below, I certify that the above is a full and complete listing of all of my securities investment accounts.

Associated Person Signature & Printed Name    Date

Reviewed by RWS Compliance: ___________________________  Dupe Conf Letter Sent: ___________________________
2014 Annual Certification: Private Securities Transactions

A private securities transaction is any securities transaction outside the regular course or scope of an associated person’s affiliation with RW Smith, including, though not limited to, equity or debt offerings of securities which are not registered with the Securities & Exchange Commission, i.e. not publicly-traded.

Associated persons of RWS must notify the CCO or CEO in writing at or prior to the time of the transaction. Under no circumstances may an RW Smith associated person solicit another person into investing in any security outside the scope of his or her association with RW Smith. Likewise, the employee may not receive direct or indirect compensation for his or her involvement in a private securities transaction.

Select the applicable statement(s) below:

☐ I did not invest in or receive direct or indirect payment of any kind for a private securities transaction in 2013/14.

☐ I invested in at least one private securities transaction in 2013/14 that I disclosed to RW Smith as required.

☐ I invested in at least one new private securities transaction I wish to disclose. Transaction information is detailed below.

Notification of Private Securities Transaction

Investment/Company: ____________________________________________________________

Date of Investment: ____________________________ Amount: $ ____________________________

Is a copy of the check attached? ☐ YES ☐ NO [If NO, explain below.]

Provide any additional information which might be pertinent or material to reviewing this transaction: ____________________________________________________________

☐ Are you acting solely as an investor in this transaction? ☐ YES ☐ NO

☐ Have you solicited anyone else to invest in this company? ☐ YES ☐ NO

☐ Have you received any compensation in relation to this transaction? ☐ YES ☐ NO

Associated Person Acknowledgement

By signing below, I certify that any and all participation I have had in private securities transactions while associated with RW Smith & Associates has been disclosed:

__________________________________________________________

Associated Person Printed Name & Signature Date

RW Smith Review: __________________________________________________________

Provided by RW Smith
Pursuant to the Insider Trading and Securities Fraud Enforcement Act of 1988 ("the Act") RW Smith & Associates, LLC. ("RWS") maintains and enforces procedures designed to prevent the misuse of material, non-public information by its employees. As RWS does not execute transactions for “customers” as defined by SEC rule 15c3-1(c)(6), maintain securities positions in any proprietary or other accounts (i.e., inventory positions), or develop investment-related research, it is not likely that insider trading would occur as a part of RWS’ everyday business. With that said, situations can occur where an RWS employee is exposed to non-public material information, either in his or her role as a secondary market interdealer broker, an industry professional, or simply as an investor.

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, mergers, significant earnings changes, and other major corporate events.

When material, non-public information comes into an employee’s possession, he or she must immediately notify RWS’ Chief Compliance Officer that he or she has received such information. Under no circumstances should an employee relay material, non-public information to a Dealer Client, another employee, or anyone outside of RWS.

Once an employee comes upon information that is deemed to be material non-public information, the Act dictates he or she must publicly disclose such information or cease brokering. RWS policy is that you cease brokering. Passing on the material, non-public information to anyone forces the recipient of that information to go “over the wall” and that person is now subject to the rules under the Act. Failure to limit such information could result in insider trading, whether intentional or not, and is strictly prohibited. The Chief Compliance Officer may require an RWS broker to provide a rationale prior to brokering a trade in order to ascertain the non-public information is not a factor in the decision to broker. Employees must refrain from trading in any outside investment accounts as well.

The policies and procedures in place to prevent insider trading are reliant on the cooperation of all RWS employees, particularly those involved in the day-to-day brokering of secondary market securities. All employees must be alerted to any possibility of non-public information and must report any such information immediately.

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. Insider trading rules apply not only to the person buying or selling a security when in possession of material, non-public information, but also to the person who has violated the Act by communicating such information. If you come into possession of inside information or learn of a breach by someone else at the firm, cease trading in any related security and contact the Chief Compliance Office immediately to discuss.

My signature below acknowledges I have read the above policy and understand I must adhere to these, and any other, published written policies of RW Smith & Associates, LLC.

Employee Signature: ____________________________ Date: ______________

Printed Name: ____________________________________________
GENERAL POLICIES & PROCEDURES

Expense Reports Submitted via Web-Based System
RW Smith & Associates, LLC (“RWS”) utilizes a web-based expense reporting system for both compliance and accounting purposes. All expense reports must be submitted via this web-based system; hard copy reports are not accepted. A web-based system helps streamline the accounting process to ensure complete and timely submission of reports, allows for more accurate tracking of expenses, provides a layer approval process for audit trails, and helps speed up the payment process so that employees receive reimbursements promptly.

User Log-ins
Accounting is responsible for adding Users and providing log-in credentials. If an employee needs a log-in or needs a password reset, contact Accounting. As RW Smith is billed for each distinct User accessing the system in any given month, employees should try to limit their access to ExpenseWire only in months when they are submitting an expense report.

Accurate & Complete
Employees should be as accurate and complete as possible when completing expense reports. Always include a description of the expense and, if entertaining, provide the Business Discussed. If items are accurate or complete, we will reject individual lines items or entire reports back to the employee to correct or add detail. When this occurs, simply make the noted change and re-submit.

Pre-Authorization
All general expenses, including entertainment, greater than $500 and total travel expenses greater than $1000 require pre-authorization from the CEO.

American Express
Brokers may be issued a corporate Amex to use for business entertaining and other business-related expenses. At the time you are issued an Amex card from RW Smith, you will sign separate paperwork outlining the policies of usage. (As of 2014 the distribution of corporate Amex cards has been suspended.)

Generally, you should import your Amex charges directly into ExpenseWire. This is simpler for you and helps to ensure a more accurate report. If you create a report for your Amex charges without utilizing the import function, you must be careful to select the Payment Type reflecting your own Corporate Amex card (example: B Jones Corp Amex Card) and ensure all charges for the month are completed.

Time-Frame
For charges on the corporate Amex, expenses in any given month must be submitted no later than five days after month-end. Reimbursable expenses must be submitted within 30 days of incurring the charge. Financial Controls sends an email prior to month-end to remind you to get an expense report in if you have incurred charges on the corporate Amex.

Receipts Required
All expenses require a receipt, not a copy of the credit card statement. Electronic receipts can be saved on your computer and uploaded directly into the expense reporting system. Hard-copy receipts should be scanned and then uploaded into ExpenseWire. If you do not have access to a scanner, you will need to fax in your receipts using a printed cover sheet from within your expense report. Certain cash expenses will not generate a receipt, such as tolls, tips, and train fare, and these types of exceptions are allowed.
Lodging Receipts
All hotels should provide an itemized receipt breaking down the individual expenses: room, parking, entertainment, food, etc. This itemized receipt must be attached to the expense report so that Accounting can appropriately categorize all of the expenses.

Mileage Reimbursement
When an employee drives his or her own vehicle for business-related purposes (outside of regular commuting), he or she is allowed to receive a mileage reimbursement. The IRS-dictated mileage reimbursement rate takes into account fuel expense, so no separate reimbursement requests for fuel may be made. Make note of the starting and ending mileage for your trip so that an accurate number of miles driven can be determined.

GIFTS AND ENTERTAINMENT

To ensure adequate supervision and remain in compliance with industry rules and best practices, all expenses incurred in relation to both gifts and entertainment must be submitted to RWS management.

Pre-Approval for Gifts
All gifts given by RW Smith associated persons to an associated person of another firm must be approved in advance by the CCO or CEO. Pre-approval is done by submitting the firm’s Gift Notification & Approval Form to Compliance via email (or providing in the body of the email the information requested on the Form to the CCO). RWS policy prohibits the giving of any gift(s) which in value, whether singly or in the aggregate, totals greater than $100 to any one associate of a broker-dealer or dealer bank within one calendar year. RWS tracks all gifts given by associated persons of the firm, no matter how small, to ensure the $100 limit is maintained. For gifts given totaling greater than $100, the firm may need to contact the recipient’s Compliance Department to discuss the matter and perhaps have the gift returned. This $100 limit per person is the reason the pre-approval is so important – a broker may give a $60 gift to a trader and not realize a $60 gift was already given much earlier in the year. All gift(s) must be documented on an expense report. Employees will not be reimbursed without the signed form and applicable receipts.

Entertainment vs. Gift
All entertaining must be hosted by the RWS associate, meaning the RWS associate must physically be in attendance at the event or meal, i.e. lunch, dinner, theater, ball game, etc. If an employee simply provides tickets to an event, such as two tickets to the baseball game, that is without question considered a gift and is subject to the $100 limit per person per year. Generally, RWS prohibits gifts of events and any exceptions require approval from the CEO.

Business-Related Entertaining
IRS regulations are very strict with regards to business entertaining expenses. In order for the firm to categorize an expense as entertainment and subsequently reimburse the employee, the expense must be incurred in the operation of a business regularly carried on by RWS and be directly related to or associated with our business. In addition, for the expense to be deductible to RWS, the entertainment must be made principally in furtherance of RWS’ trade or business. Therefore, all expense reports relating to entertainment must contain a description of the business discussed.

My signature below acknowledges I have read the above policy and understand I must adhere to these, and any other, published written policies of RW Smith & Associates, Inc.

RWS Associated Person Signature: ____________________________ Date: ____________

Provided by RW Smith
TECHNOLOGY USE POLICIES

RWS SYSTEMS & NETWORK
Any document or file created or saved on the RW Smith & Associates, LLC (“RWS”) corporate system is the property of RWS. Associated persons of RWS are responsible for exercising good judgment with respect to use of any RWS systems and network. RWS reserves the right to audit networks and systems at any time without notification to users of those networks and systems.

CONFIDENTIALITY
Confidentiality is an important and necessary component of our business. RWS works diligently and is committed to maintaining the confidentiality of non-public client and customer information and all associated persons must adhere to strict policies to meet this requirement. All associated persons must adhere to the following policies and procedures:

• Keep passwords secure and do not share them with others.
• Unauthorized forwarding posting, and/or copying of RWS emails, policies, intellectual property, etc, is prohibited.
• Do not forward one client’s email to another client without the express consent of the email originator.
• Emails sent containing non-public personal information must be encrypted.
• Files stored on a laptop or other portable device and which contain non-public personal information must be encrypted.
• Log off of your work station at the end of the day and when you leave for an extended period of time during the work day.

PASSWORDS
An employee’s password to company systems is used as an audit trail - if a trade is done on MuniBrokers using your login, we assume it’s you. Keep your passwords private. You are responsible for any activity on any system done under your logon credentials.

GENERAL PROHIBITIONS
Use good judgment with respect to use of RWS’ technology, emails, and network.

• Do not download software on your work station without pre-authorization from the IT Department.
• Do not copy files onto portable electronic devices, i.e. thumb drive or CD, from the RWS network without pre-approval from Compliance or the CEO.
• Do not conduct any illegal activity on RWS systems or network.
• Do not send or forward chain emails on the RWS email system.
• Do not send or forward obscene jokes or photographs on the RWS email system.
SOFTWARE DOWNLOADS
Employees may not download or install any unauthorized software on company computers. This includes, iTunes, games, instant messenger services, etc. If you wish to download software for any reason, email the IT Department to request the download. The reason for this is twofold: Compliance wants to ensure unauthorized services are not being used and IT wants to ensure software isn’t installed that could cause problems to an individual’s computer or the network as a whole.

EMAIL
SEC rules are very broad on the subject of written communications and simply require that firms retain “all communications relating to the firm’s business as such.” RWS policies help ensure compliance with this rule.

All business-related communications must go through the RWS email server or Bloomberg Messaging to be in compliance with industry-mandated rules and regulations as well as firm policy. We require immediate notification of any and all Bloomberg addresses you are assigned to confirm we have the correct information on file for retention and supervisory purposes.

RWS does not allow use of personal electronic applications and/or devices for business-related communications unless documented and approved in advance by RWS, as all such communications must route to or through RWS to be properly captured. Personal emails sent using the RWS email system or Bloomberg are not private and are subject to review and retention along with all business-related communications.

All emails sent to and received from an RWS or RWS Bloomberg address are copied to a backup location and maintained for three years. The compliance department reviews daily emails and regulators will review emails during a routine examination as well as during an investigation.

If you own a mobile device that accesses email and you wish to utilize it for any business-related communications, you must get permission from the RWS IT Department. You will be given instructions as to how to set up your portable device to be in compliance with RWS and industry rules. Texting using your mobile device for any RWS business-related communication is prohibited.

Because the compliance department is reviewing emails and all emails must be retained for a minimum of three years, RWS requests that employees try to keep their personal email usage to a minimum. Although RWS discourages use of outside, personal email programs on company computers, the firm understands in today’s environment, where email communications are often the quickest and most reliable way to contact someone, use of an outside personal email service is sometimes a necessary tool. Again, it is vital for RWS employees to understand that absolutely no business-related communications may take place via a personal (non-RWS) email provider whereby the communication is not captured by RWS.
**INSTANT MESSAGING**

RWS does not allow use of instant messaging tools on company computers, whether personal or business, including but not limited to Yahoo, Gmail, Facebook, and Skype. The only exception to this rule is Bloomberg Instant Messaging via a broker’s assigned Bloomberg address, as documented and on file with the firm’s Compliance Department.

**SOCIAL NETWORKING SITES & BLOGS**

RWS prohibits employees from discussing industry-related topics on social networking sites, blogs and other internet sites. If an associated person posts securities-related information on the internet, whether identified as RWS or not, it is considered advertising and must be pre-approved by Compliance. RWS allows associated persons to list RWS as a current employer on social networking sites, but no description of the firm or information about services you or the firm may provide is permitted without express written approval from Compliance.

**COMPLIANCE MONITORING**

RWS uses a variety of tools to help monitor associated persons’ adherence to the firm’s technology use policies. With the high degree of regulatory liability at stake regarding use of technology, RWS takes these policies very seriously. If you have any questions about your own current technology use, or an intended use, contact Compliance or the CEO. The firm would much rather correct a problem now than face unintended consequences from those problems in the future.

____________________________________  _______________________
Associated Person Signature             Date

____________________________________
Associated Persons Printed Name
Outside Business Activities

FINRA Small Firm Conference
December 10 – 11, 2014 • San Francisco, CA

Speakers

- **Moderator:**
  - David Greene, FINRA Los Angeles District Office

- **Panelists:**
  - Victoria Bach-Fink, Wall Street Financial Group
  - David Martin, Keystone Capital
  - James Webb, Cape Securities Inc.
### Resources

- **NASD Rule 3040** (Private Securities Transactions of an Associated Person)
- **NASD Rule 3050** (Transactions for or by Associated Persons)
- **FINRA Rule 3270** (Outside Business Activities of Registered Persons)
- **Notice to Members 94-44** (Rules Of Fair Practice To Investment Advisory Activities Of Registered Representatives)
- **Notice to Members 96-33** (NASD Clarifies Rules Governing RR/IAs)
Anti-Money Laundering

FINRA Small Firm Conference
December 10 – 11, 2014 • San Francisco, CA

Speakers

- **Moderator:**
  - John Veator, FINRA Member Relations and Education

- **Panelists:**
  - Myles Edwards, Constellation Wealth Advisors
  - Carolyn May, Simmons First Investment Group, Inc.
  - Robert Muh, Sutter Securities Inc.
Resources

- **United States Department of the Treasury:**
  - Financial Crimes Enforcement Network – SAR Stats
    www.fincen.gov/news_room/rp/sar_by_number.html
  - Resource Center
    www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx

- **FINRA:**
  - FINRA AML Template for Small Firms
    www.finra.org/Industry/Issues/AML/p006340
  - FINRA AML Information Page www.finra.org/Industry/aml
  - FINRA Rule 3310 – Anti-Money Laundering Compliance Program
The Evolution of Communication: From #SnailMail to #SocialMedia and Beyond

FINRA Small Firm Conference
December 10 – 11, 2014 • San Francisco, CA

Speakers

- **Moderator:**
  - Amy Sochard, FINRA Advertising Regulation

- **Panelists:**
  - Mari Buechner, Coordinated Capital Securities
  - Tina Maloney, Winslow, Evans & Crocker, Inc.
  - Hardeep Walia, Motif Investing
Evolution

Wasn’t the world easier with snail mail?

Social Media Explained

- I'm eating bacon
- I like bacon
- I have skills including eating bacon
- This is where I eat bacon
- Watch me eat my bacon
- Here's a vintage photo of my bacon
- Here's a recipe with bacon
- I work for Google and eat bacon
- I'm listening to music about bacon

Why use social media?

Customer Access
Customer Engagement
Customer Assets
Return on investment

- Monitoring and retaining is costly, how do firms evaluate a social media program?
  - What are the greatest opportunities for firms in the social media space?
  - What are the risks that would need to be managed?
  - What metrics will be used to drive success?
- How does social media fit into your business model?

Social Media Compliance: Core Concepts

- Personal vs. business use
  - Recordkeeping
- Static vs. interactive communications
  - Supervision
- Adoption and entanglement
  - Third party content
Recordkeeping

- Personal vs Business use
- Outsourcing
- Internal
- Surveillance
- Disclosures

How are firms handling recordkeeping?
Supervision: Static vs. Interactive

FINRA Rule 2210 establishes different supervisory standards for static versus interactive retail communications.

**Static:** must be approved prior to use by a registered principal, may be subject to a filing requirement.

**Interactive:** may be supervised flexibly in accordance with firm’s written supervisory procedures, not subject to the filing requirements.

Which part is interactive?
Supervision and Review

- Train personnel on the difference between business and personal communications
- Methods of review – frequency, depth, red flags
- How to find the problems
- What is “reasonably designed to ensure compliance”?
- Supervisory measures: certifications, random checks, searches
- Non-English Communications

Supervision – Guidance for Social Media

- From Regulatory Notice 11-39:
  - Registered principal must review prior to use any social media site that an associated person intends to use for business
  - May only approve sites if the principal has determined the associated person can and will comply with applicable rules
  - Must review site in the form in which it will be launched
  - Links to Third-Party Sites:
    - Firms may not establish a link to any third-party site that the firm knows or has reason to know contains false or misleading content.
    - A firm may be responsible for content on a linked third-party site if the firm has adopted or is entangled with its content.
Third Party Content: So What are Adoption and Entanglement?

Think of adoption like reprinting an article from a publication and passing it out to your connections. There’s nothing wrong with adoption. It’s what social media is all about. You better be certain, however, that you’re not adopting an opinion piece that is misleading, untrue, or not fair and balanced. Don’t adopt analyses, op-eds or projections. Once you have adopted the piece it is as if it was your own.

Entanglement is similar to working with or hiring a writer on an article, commenting on the draft, and perhaps approving it before printing. You and the writer are entangled in the final article and therefore responsible for its content. Once you are entangled the material becomes retail communication subject to FINRA rules. Best practice is to share general information.

Source: Coordinated Capital Securities, Inc.

Third Party Content: Disclosure Examples

Guidelines:
• Third Party Posts. Third party links or posts found on this profile do not reflect the views of TBD and have not been reviewed by TBD as to accuracy or completeness. TBD is not responsible for any content, advertising, advice, opinions, recommendations, or other information from third parties, including those from Facebook.

Advice for Contacting
We ask that you please not use the chat or other interactive features on this site to contact us. If you would like to contact us directly, please call our office at (phone) or visit our website which is listed in the website section of this site. Industry regulations prevent me from posting any specific investment advice. Securities offered through Name of Broker Dealer and Address, member FINRA/SIPC. Third party links or posts found on this profile do not reflect the views of BD and have not been reviewed by BD as to accuracy or completeness.

Source: Coordinated Capital Securities, Inc.