

Kovack Advisors, Inc.
Written Supervisory
Procedures

Compliance
by
Dr. Ronald Kovack

"Compliance is not simply a department in the back office of a stock brokerage firm; it is the very DNA of the Firm. The degree to which compliance is efficient is a corollary to the degree of probability that the Firm will survive.

Compliance is a philosophy of management that embraces the rules and regulations of the industry, not because of regulatory oversight, but because the rules are designed to protect the Investment Advisor Representative, the Firm, and its clients. It is a core value that is presented to the firm by its owners and senior management."

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Section 1

Introduction

Kovack Advisors, Inc. ("KAI"), its Investment Advisor Representatives, and employees are engaged in an industry that is strictly regulated by a variety of regulatory authorities, including the Securities and Exchange Commission ("SEC"), the Municipal Securities Rulemaking Board ("MSRB") and various state securities and insurance divisions. In addition, KAI clears trades on a fully disclosed basis with members of the New York Stock Exchange ("NYSE"). Finally, there are a number of "best practices" that should be followed to avoid litigious situations. As a result, there are myriad rules, regulations and policies that must be adhered to.

Registered Investment Advisors are required to establish, maintain and enforce a system of supervision and compliance. In conducting its business, KAI is required to ensure that its Investment Advisor Representatives and employees strictly adhere to the firm's system of supervision and compliance. The combination of strong ethical principles and supervision are designed to help produce an environment of public confidence and industry wide stability.

This Written Supervisory Procedures Manual ("Manual") has been prepared so as to provide Investment Advisor Representatives and employees of KAI with a ready reference to KAI's procedures and the supervision of those procedures. The Manual can be accessed on the KSI/KAI InTouch website at <https://kovacksecurities.com>, or downloaded and maintained in a loose-leaf format so that additions, deletions and corrections can easily be accessed.

Registered Representatives must:

- Become familiar with the contents of the Manual
- Understand that the periodic Compliance Corners are an integral part of KAI's compliance structure

In the event that an Investment Advisor Representative finds a portion of this Manual unclear or incomplete, the Investment Advisor Representative is responsible for seeking clarification from the Chief Compliance Officer.

Section 2

Supervision Structure

The Investment Advisor Act of 1940 requires that all Registered Investment Advisor firms establish and maintain a system to supervise the activities of each Investment Advisor Representative and associated person; this system must be reasonably designed so as to achieve compliance with applicable securities laws and regulations.

KAI supervision is employed at two levels. The first level of supervision takes place at the Branch Office and is exercised by the Branch Manager, when applicable. The second, and final level of supervision, and oversight of the Branch Manager(s), is the responsibility of the Chief Compliance Officer, the Executive Vice President and the Senior Vice President/KSI Chief Compliance Officer, all located in the KAI Main Office. Most KAI Investment Advisor Representatives are supervised directly from the Main Office.

To meet these supervision requirements, KAI, in conjunction with KSI, has established this supervisory structure. Should the firm engage in lines of business not covered by its current supervisory structure, the firm will develop and implement supervisory procedures prior to engaging in the activity.

Executive Vice President

The Executive Vice President (EVP) is responsible for the Account Operations Department, the Account Services Department, and the Trading Department, and supervises the following:

- New account operations, including account transfers
- Cashiering
- Account maintenance
- Brokerage trading and operations
- Books and records retention for records relating to supervised departments
- Advisory accounts

His supervision of these departments also includes a number of other supervisory responsibilities that emanate from these primary areas of supervision. These include, but are not limited to, best execution, fee review, transactions, wire transmittals and address charges.

Senior Vice President & KSI Chief Compliance Officer

The SVP/KSI CCO supervises the following:

- Licensing and registration
- Correspondence review

- Continuing education
- Transaction reporting, as applicable
- Annual Compliance Meeting
- Branch Audit Program
- Books and records retention relating to supervised departments
- Supervision of branch offices
- AML

Chief Compliance Officer

The Chief Compliance Officer (CCO) is responsible for developing, maintaining and enforcing the Written Supervisory Procedures Manual, along with the attendant policies, rules and regulations of KAI and all regulatory authorities. No less than annually, the CCO will test and verify the firm's supervisory procedures to ensure that they are reasonably designed to achieve compliance with all applicable rules and regulations. The CCO will produce a written report of the findings, which will include a summary of the test results, significant identified exceptions and any additional or amended procedures created in response to the results. The report will be presented to the CEO for review and acceptance. In addition, the CCO oversee the following:

- Review of outside business activities
- Advisory customer complaints
- Heightened supervision of Investment Advisor Representatives
- Review of advertising
- Advisory branch audit findings
- Supervision of branch offices

Chairman and President

Dr. Ronald Kovack and Brian Kovack, Esq. serve as the Chairman and President/Chief Executive Officer, respectively, of both KAI and KSI.

Supervisors

KAI has qualified supervisors responsible for all lines of business that the firm engages in.

Section 3

Registering and Maintaining Registrations

Prior to Soliciting Transactions

KAI Investment Advisor Representatives must be properly registered and licensed prior to engaging in business or rendering investment advice. Such licensure and registrations must be made with the appropriate regulatory body (federal, self-regulatory and/or state) and must cover the activity contemplated.

To effect registration, the Investment Advisor Representative must complete the Form U-4, requesting registration for the state registrations needed to be compliant with licensing regulations. The completed Form U-4 is then forwarded to the KAI/KSI Licensing and Registration Department. The Advisor Representative must have taken the qualifying examinations needed or may request to take the qualifying examination. KAI is federally licensed, so generally, Investment Advisor Representatives must be registered in states where they have an office.

It is imperative that Investment Advisor Representatives know the limits of the licenses and registrations they hold, as they will be held solely responsible for remaining fully compliant with licensing strictures.

"Pre-Hire" Form

Prior to being retained by KAI in a registered capacity, all Investment Advisor Representatives must complete a "Pre-Hire" form, authorizing KAI to review their existing Form U-4 via the IARD and any other documentation needed to perform a pre-hire check. KAI will not perform this investigation without the signed authorization.

Affirmative Disclosures on the Form U-4

Affirmative responses to the disclosure questions on the Form U-4 shall be carefully analyzed by the firm's Executive Officers, who shall question the individual and request additional documentation as needed. Their review may result in placing the registrant on targeted or heightened supervision for a period of time.

Fingerprinting

Upon their association with KAI, all new hires must submit fingerprints via BIG. BIG will forward the ensuing report to FINRA.

Completion of the Form U-4

Licensed personnel must complete the Form U-4, taking care to fully complete each area. For example:

- Employment history must be fully completed for the prior ten (10) years, listing all positions held as an officer, director, partner, owner and/or employee of any business entity, regardless as to whether the position was part-time, unpaid or largely honorary. Periods of unemployment, and periods where employment was interrupted by educational training, must also be shown. There must be no periods of time that are unaccounted for.
- All outside employment and activities must also be shown, delineating each business, activity and venture engaged in by the applicant either as an owner, partner, officer, director, trustee, employee, agent or otherwise that will not be offered through KAI. Submission of complete information is mandatory, and must be accompanied by the OBA Notification Form. Please refer to "Outside Business Activities" to obtain more information on OBA approval.

Continual Reporting

The Form U-4 must be updated by registered personnel within thirty days of becoming aware of a change in the information shown in the Form U-4. All changes must be in writing, and must be submitted to the Licensing and Registration Department. It is the responsibility of the Investment Advisor Representative to be fully aware of the areas covered by the Form U-4, and to promptly submit to the Registration Department all required changes to the Form U-4.

Non-Licensed Personnel

Potential employees, both at the main office or at any branch, must complete the "Pre-Hire" form so as to enable KAI to perform a background check. Promptly upon employment, the Non-Registered Personnel form must be completed and submitted to the Licensing and Registration Department, and fingerprints must be submitted via BIG. KAI will immediately notify the employing Investment Advisor Representative if the background check indicates a potential problem.

Investment Advisor Representatives are required to promptly notify the main office when any non-licensed personnel terminates their employment with the Investment Advisor Representative.

Termination of Employment

When registered personnel are terminated, or choose to terminate their registrations with KAI, the Registration Department shall, within thirty (30) days of the date of separation, submit the

Form U-5 to the Investment Advisor Registration Depository. A copy of the Form U-5 submitted shall be sent within the same time frame to the terminated individual.

Supervision

The activities of the Licensing and Registration Department are supervised by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 4 Branch Offices

A "place of business" or "branch office" is any location where an Investment Advisor Representative regularly provides investment advisory services, solicits, meets with, or otherwise communicates with clients, and such location is held out to the general public as a location where the Investment Advisor Representative provides investment advisory services, solicits, meets with, or otherwise communicates with clients. The manager of a branch office shall be known as the "Branch Office Manager".

Final supervisory responsibility and authority rests with the KAI Home Office.

A Branch Office Manager shall ensure that:

- All new account forms are fully completed so that a customer's suitability for proposed investments can be evaluated.
- Client funds, securities and all information are properly safeguarded.
- All required blotters, including but not limited to, the sales blotter, the securities received and shipped blotter, and the checks received and shipped blotter are properly maintained and available for review by the Home Office.
- The Correspondence File is maintained for review by the Home Office.
- All trades placed are in accordance with applicable rules and regulations.
- All customer complaints are promptly transmitted to the Home Office.
- All office activities are compliant.

Offices will maintain a copy of the current version of the Manual, as well as all trading and compliance advisories, and the Approved Product list. The copy may be a hard copy, or accessed electronically through the KAI web site.

Office Inspections

KAI will inspect each branch office no less than once every three years, and may, based on its own assessment, choose to inspect an office more frequently. These inspections may or may not be announced, and may be on-site, or may be conducted from the home office. Factors reviewed when considering more frequent audits include, but are not limited to, Form U-4 disclosures, portfolio composition, client base, whether or not Investment Advisor Representative is supervised on-site, and findings from the firm's daily reviews. The cost of the

inspection shall inure to the branch office. The individual inspecting the office shall make a written report of their inspection and will provide the report to the Chief Compliance Officer. Inspections will examine all relevant factors, which may include, but are not limited to:

- Physical and computer safeguards
- Safeguarding of customer funds and securities
- Changes of customer account information
- Maintaining books and records
- Hand delivery of checks
- Office banking statements
- Assessment of product and client composition
- Review of account sample
- Review of portfolio holdings
- Review of required blotters
- Review of advertising
- Review of fee arrangements

In addition to the other areas of supervision mentioned above, other review functions take place at and are reviewed at the home office, including:

- Transmittals of funds and securities to third-party accounts; from customer accounts to outside entities; from customer accounts to locations other than a customer's primary residence; and between customers and Investment Advisor Representatives.
- Changes of customer account information, including address and investment objective changes, and validation of the changes.

Branch office audits may be supplemented by any other auditing measure KAI may require.

Supervision

Branch offices are overseen by the Home Office OSJ Principal, under the supervision of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer. Some activities are supervised by the Vice President of Trading, the Trading Risk Manager, the New Accounts Principals Team, or the Senior Vice President/KSI Chief Compliance Officer. The Vice President of Trading is supervised by the Executive Vice President, and the New Accounts Principals Team is supervised by the Senior Vice President/KSI Chief Compliance Officer. The Compliance Department is overseen by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 5

Investment Advisor Representative and Employee Brokerage Accounts

Investment Advisor Representatives and employees must receive written approval from KAI prior to opening a brokerage account at another member firm. Newly associated Investment Advisor Representatives or employees must obtain written approval from KAI for any such account upon association with KAI but no later than within thirty days (30) days of affiliation. In addition, KAI must receive notice of, and provide approval for, certain other affiliated accounts, as follows:

- Associated person
- Associated person's spouse
- The associated person's child, if the child lives in the same household or is financially dependent on the associated person
- Any other related person over whose account the associated person has control
 - Any account that the associated person exercises discretionary authority over.

For these accounts, KAI must receive duplicate confirms and statements.

Trading in non-covered products in all of the accounts mentioned above will be reviewed by the Compliance Department for trading violations such as, but not limited to, insider trading, selling away, front-running and tailgating. If possible trading violations are found in any review, the Chief Compliance Officer shall be notified, and shall decide on an appropriate course of action.

Supervision

The Compliance Department, under the supervision of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer, is responsible for requesting duplicate confirms/statements, and for reviewing the account activity.

Section 6

Outside Business Activities

An Outside Business Activity ("OBA") is an activity where an Investment Advisor Representative serves as an:

- Employee
- Independent contractor
- Sole proprietor
- Officer
- Director
- Managing member
- Partner of another person

This includes any corporate position held by the Investment Advisor Representative for any inactive company. It can also include any activity where the Investment Advisor Representative is volunteering for a civic, religious, fraternal or professional organization, and is serving in a position of authority. For example, the Investment Advisor Representative may be President, Secretary or Board Member of the local Rotary club, their homeowner's association, the local CPA chapter, or church. Please keep in mind that some organizations have titles unique to their structure, such as church elder or some Masonic lodge positions, that are the equivalent of a corporate executive position. In these cases, the position held is the determinant, as generally no compensation is received.

OR

- Has the reasonable expectation of compensation, or is compensated from any activity outside the scope of KAI.

OBAs do not include any activity where no compensation is received, and the Investment Advisor Representative is not in position of authority. Typically, these include volunteer or hobby activities, such as ushering at church, helping a food pantry or writing a book for which no advance has been received.

Investment Advisor Representatives must provide written notice, and must receive written approval from the Compliance Department prior to engaging in any OBA.

Use of a "Doing Business As" (DBA) name is considered to be an OBA; Investment Advisor Representatives must complete the OBA form and receive approval prior to using the DBA name. The same applies to fixed insurance sales.

Upon receipt of the written notice from the Investment Advisor Representative, the Compliance Department will review the proposed OBA. Factors to be considered include, but are not limited to, are:

- Will the OBA interfere with or compromise the registered person's responsibilities to KAI or its customers?
- How much time will the OBA involve?

- Will the OBA cause customers and/or the public to consider the OBA a part of KAI's business based on the nature of the proposed activity?
- In what manner will the Investment Advisor Representative present the product or services offered by the OBA?
- Will the Investment Advisor Representative solicit KAI customers on behalf of the OBA?
- Where is the location that the Investment Advisor Representative will conduct the OBA?
- Will the Investment Advisor Representative require a license or accreditation to conduct the OBA?
- How much does the Investment Advisor Representative expect to earn from the OBA?
- How is the Investment Advisor Representative compensated for the OBA?
- Are other KAI Investment Advisor Representatives involved in the OBA?
- Is the activity properly characterized as an OBA?

After conducting a review of the proposed OBA, the Compliance Department will approve or prohibit the OBA in writing. In approving the OBA, specific conditions or limitations may be imposed.

Once the OBA has been approved, a determination will be made as to whether or not the OBA will be shown on the Investment Advisor Representative's Form U-4.

Supervision

The Senior Vice President/KSI Chief Compliance Officer and Chief Compliance Officer are responsible for reviewing OBA activities.

Section 7

Investment Advisor Representatives Serving in a Fiduciary Capacity

A fiduciary is a person or institution that is given the power to act on behalf of another. Investment Advisor Representatives, due to their knowledge of financial procedures, products and markets, are occasionally asked to serve as a fiduciary, usually as a Trustee, Personal Representative/Executor, Attorney-in-Fact, or as a guardian, conservator or as the custodian of a minor's account. These roles are defined as follows, as the terms may apply to Investment Advisor Representatives serving in fiduciary capacities beyond the fiduciary standard that all Investment Advisor Representatives act in:

Trustee: a fiduciary responsible for managing assets under the terms of the trust. The assets managed may be titled in the name of the trust, or trustee may have title to the assets. In either case, the trustee is acting only for the benefit of the trust and its beneficiaries.

Personal Representative/Executor: a fiduciary responsible for administering the assets of an estate in conformity with the directions contained in the deceased person's last will and testament.

Attorney-in-Fact: a fiduciary specifically named by another through a written Power of Attorney ("POA") to act for that person in the conduct of their business. POAs may be general, conferring broad powers, or limited in nature.

Guardian or Conservator: a person who has been appointed by a judge to care for a minor child or incompetent adult, called the "ward"; this role can frequently involve management of the ward's finances. A guardian can also be self-appointed for a limited role, such as serving as the guardian for an UGMA or UTMA account. Here, the beneficiary owns the assets, which are being "guarded" by the adult until they reach the age of maturity in their state of residence.

A fiduciary relationship is based on the highest degree of trust, where one party vests the other with confidence and good faith. In cases where a person is appointed to serve in a fiduciary capacity, a judge vests the appointee with that same confidence and good faith. In the case of a custodial account, wherein a parent serves as the custodian for a child's assets, there is an explicit legal standard of fiduciary care. A fiduciary is legally required to hold their acts to a higher standard, regardless as to what capacity the fiduciary is serving in. Investment Advisor Representatives, when serving in any fiduciary capacity, must use the greatest care in honoring these responsibilities.

Investment Advisor Representatives may not serve in any fiduciary or custodial capacity without first receiving approval from the Chief Compliance Officer. Approval is granted only on a case-by-case basis, and in very limited situations.

Supervision

Investment Advisor Representatives serving in a fiduciary capacity are supervised by the Chief Compliance Officer.

Section 8

Gifts and Gratuities

Cash and Non-Cash Compensation

Investment Advisor Representatives cannot receive or give gifts with a value in excess of \$100.00. Each Investment Advisor Representative that gives or receives gifts of more than a nominal value must maintain a "Gifts and Gratuities" log; this log must be submitted upon request to the Compliance Department for review. The log will set forth:

- In the case of gifts and gratuities received, the name of the giver and the gift or gratuity received.
- In the case where the Investment Advisor Representative is making the gift, the recipient of the gift or gratuity and the value of the item given.

Personal gifts

The prohibition generally does not apply to personal gifts such as a wedding gift or congratulatory gift for the birth of a child, provided that these gifts are not "in relation to the business of the employer of the recipient".

Promotional items and gifts of minimal value

In addition, the prohibition does not apply to promotional gifts and gifts of minimal value, such as pens, notepads or desk ornaments that bear the firm's logo. Here, the value of the gift must fall substantially below the \$100.00 limit.

Valuation of gifts

In general, gifts should be valued at the higher of cost or market value, exclusive of tax and delivery charges. When valuing tickets the higher of cost or face value should be used, such when the ticket is purchased in the secondary market for a price greater than the face value of the ticket.

If a gift is given to multiple recipients, the value of the gift can be calculated on a pro-rata per recipient basis. For example, a gift basket, valued at \$250.00, delivered to three recipients in an office would be in compliance with the \$100.00 limit. Remember, however, that the value of this gift must be aggregated with any other gifts given throughout the year to each individual.

Gifts Incidental to Business Entertainment

There is no exclusion for gifts given in the course of business entertainment and conferences. For example, purchasing an umbrella during a round of golf would be considered a gift.

Supervision

The Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer is responsible for overseeing compliance of the firm's gift policy.

Section 9

Borrowing From or Lending to Customers

Borrowing from, or lending to customers, is generally prohibited unless under the following conditions:

- A. The Investment Advisor Representative requests written permission to enter into the arrangement PRIOR to any such arrangement. The written request must be made to the Chief Compliance Officer, who will review the request and either approve, approve with modifications, or reject the request. Once approved, any modifications to the loan must likewise be submitted in writing to the Chief Compliance Officer for review and approval, prior to effecting the modification.
- B. The lending or borrowing arrangement must meet one of the following conditions:
1. The customer is a member of the Investment Advisor Representative's immediate family. As applied to this procedure, "immediate family" means parents, grandparents, siblings, mother-in-law or father-in-law, son-in-law or daughter-in-law, children, grandchildren, cousin, aunt or uncle, niece or nephew, and any other such person whom the Investment Advisor Representative supports, directly or indirectly, to a material extent. For these arrangements, approval is not required by KAI.
 2. The customer is a financial institution, or other such person or entity, regularly engaged in the business of providing credit, financing or loans and is acting in the course of such business. If the proposed loan is being made on commercial terms generally available to the public, then notification need not be made.
 3. The customer and the Investment Advisor Representative are both registered persons of KAI or KSI.
 4. The lending arrangement is based on a personal relationship with the customer, such that the loans would not have been solicited, offered, or given had the customer and the Investment Advisor Representative not maintained a relationship outside of the advisor-customer relationship; or
 5. The lending relationship is based on a business relationship outside of the advisor - customer relationship.

Supervision

Lending or borrowing arrangements to and from customers are supervised by the Chief Compliance Officer.

Section 10

Political Contributions

Political contributions to "issuers" were promulgated to prevent the influence of political contributions in the award of municipal bond offerings by state and local government officials. Falling within the exemptions made available by the law provides a safe harbor for firms from the reporting requirements and the corresponding restrictions on municipal activities.

KAI currently does not participate in negotiated or competitive offerings for municipalities. Additionally, KAI's Investment Advisor Representatives are generally not held to be "municipal finance professionals" since they principally engage in sales to natural persons. In the future, should KAI participate in a competitive municipal bond offering, a two year look-back on prior contributions by some KAI Investment Advisor Representatives may be material and affect KAI's ability to participate in an offering. Accordingly, KAI requires that Investment Advisor Representatives obtain prior approval from the Compliance Department before making a contribution to a political candidate or party. The KSI Political Contribution Request for Approval form should be used to make the request. Generally, contributions are limited to:

- For elections in which the Investment Advisor Representative is entitled to vote at the time of contributions, contributions in the aggregate shall not exceed \$350.00 to any one official, per election.
- For elections in which the Investment Advisor Representative is not entitled to vote, contributions shall not exceed in the aggregate \$150.00 to any one official, per election.

Political Contributions by Registered Representatives of Broker/Dealers(B/Ds)

Restrictions on political contributions made by Registered Representatives differ than those made by Investment Advisor Representatives. Registered Representatives that are dually registered with a B/D, including KSI, must refer to the Written Supervisory Procedures of their B/D and abide by the more restrictive policy. This does not negate or remove the pre-approval requirement of KAI, but may reduce the amount of contributions.

Supervision

Political contributions will be supervised by the Chief Compliance Officer in consultation with the Municipal Principal, as needed.

Section 11

Correspondence

What is Correspondence?

Correspondence includes any written letter, electronic mail, instant message, text, and any other written communication sent to more than one person, regardless as to whether or not the recipient is a customer.

All communications must be fair, balanced and not misleading. These standards are further delineated in the "Retail Communications" section of the Manual.

Business-Related Correspondence

All Investment Advisor Representatives must have an approved email address for conducting all business-related correspondence. In addition, business related correspondence can only take place using approved means. Aside from traditional paper correspondence, these are limited to the approved social media platforms (listed in the Advertising Manual) and the approved KSI/KAI email address.

Adherence is mandatory. Given the proliferation of ways of communicating, Investment Advisor Representatives must remain aware of the firm's requirement. For example, an Investment Advisor Representative may be emailing with a friend on their private email when the conversation turns to securities-related issues. The Investment Advisor Representative must advise the friend that the conversation must be continued on his or her securities-related email. He or she then begins a new email from their KAI-approved email, and the securities-related conversation can then be continued. Texting with clients is prohibited, since texts are not archived for KSI/KAI review. The sole exception is for brief, non-securities related texts, such as "I'll meet you at ABC Restaurant at noon". No securities-related texts can take place.

Additionally, while there are any number of social media platforms, only archived ones are approved by KAI.

Supervision of Correspondence

Correspondence is reviewed as follows:

- Each Investment Advisor Representative will, at the end of each quarter, send to the Compliance Department a copy of all incoming and outgoing written correspondence for review.
- The Compliance Department will conduct a daily review of email correspondence flagged for review by a key word search (lexicon-based review).

Incoming and outgoing correspondence is reviewed to properly identify customer complaints and to ensure that communications adhere to SEC rules and regulations. Flagged or inappropriate correspondence will be addressed by the reviewing Compliance principal.

Holding Customer Mail

It is KAI's policy to not permit mail holds for customers.

Encryption, and State-Required Encryption

All devices used for client correspondence containing client sensitive information must be password protected. Investment Advisor Representatives are required to encrypt all outgoing emails that contain client secure information. Additionally, Investment Advisor Representatives are required to comply with state-required encryption requirements.

Supervision

The review of both incoming and outgoing correspondence is overseen by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 12

Customer Complaints

A customer complaint is any written statement by a client or person acting on behalf of a client, involving the activities of the Investment Advisor Representative and/or the firm. Upon the receipt of any communication, oral or verbal, that may constitute a complaint, the Investment Advisor Representative must contact the Chief Compliance Officer to discuss the allegations. The term "complaint" is broad, and it very often not immediately clear whether a particular statement is a complaint, or an inquiry. A customer posing a question may actually be stating a grievance, and an error made in by the Investment Advisor Representative in judging as to whether or not a statement is a complaint may result in the firm not properly addressing or reporting a bona-fide complaint. Accordingly, Investment Advisor Representatives must promptly contact the Chief Compliance Officer, who will perform an initial assessment of the communication. If it is deemed to be a complaint, then the Chief Compliance Officer or designee will then:

- Enter the receipt of the complaint, verbal or written, in the firm's Complaint Log.
- Research and assess the allegation(s).
- Promptly respond, as the situation may require, to the customer.
- If the Investment Advisor Representative is also registered with KSI, determine if the event is a reportable on the Representative's Form U-4 or Form U-5, and/or via a 4530 filing.
- If so, fulfill KSI's reporting requirement(s) in an accurate and timely manner.

Supervision

Supervision of customer complaint procedures is overseen by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 13

Recommendations to Customers & Customer Suitability

Investment Advisor Representatives must have a reasonable basis to believe that the recommended transaction or investment strategy is in the best interest of the customer, based on information provided by the customer and their knowledge of the customer. A customer's investment profile includes, but is not limited to:

- Age
- Other investments
- Financial situation, including income and net worth
- Financial needs and goals
- Tax status
- Investment objectives
- Investment experience
- Investment time horizon
- Liquidity needs
- Risk tolerance
- Any other information that impacts the customer's financial situation.

The factors delineated above are generally relevant to determining whether a recommendation is appropriate for a particular customer, although the level of importance of each factor may vary depending on the facts and circumstances unique to each customer.

As a Registered Investment Advisor, KAI is bound by a fiduciary standard. KAI and its Investment Advisor Representatives have a fundamental obligation to act in the best interest of its clients and to provide investment advice that is in their best interest. KAI employees and associated persons must take reasonable care to avoid misleading clients and provide full and fair disclosure of all material information. If a reasonable investor would consider the facts to be important, KAI will consider the fact to be material.

Supervision

The New Accounts Principals Team, under the supervision of the Senior Vice President/ KSI Chief Compliance Officer and Chief Compliance Officer, is responsible for reviewing suitability of subscription-way direct business transaction. The Vice President of Trading, under the supervision of the Chief Executive Officer, oversees brokerage transactions.

Section 14

Senior Investors

The term "senior investor" is not defined by the SEC by reference to a specific age, but rather as investors who have retired or are nearing retirement. Since, however, issues such as diminished mental capacity may be more prevalent among older investors, and older investors may also be more frequent targets of financial abuse, many states use "age 65 and older" to define senior investors.

It is the responsibility of Investment Advisor Representatives to familiarize themselves with the requirements of any state in which they are effecting transacting with senior investors, mindful of the fact that a state may have requirements for different product lines.

Investment Advisor Representatives must, in recommending transactions to senior investors, abide by the following:

- Product recommendations to seniors must be suitable for the investor, and must look at all relevant factors, including, but not limited to, time horizon, income needs, net worth, other assets, liquidity needs, and risk tolerance. Investment Advisor Representatives must have a full understanding of their client, and their client must fully understand their recommendations. Recommendations made must be in the client's best interest.
- Investment Advisor Representatives must be vigilant in becoming aware of diminishing capacities, and the attendant impact on the ability to make sound financial decisions. Investment Advisor Representatives must bring any such concerns to the Chief Compliance Officer for notification and guidance. Indications that an investor may have diminished capacity, or a reduced ability to handle financial decisions, can include the following:
 - an inability to process simple concepts
 - apparent memory loss
 - difficulties in speaking or communicating
 - inability to understand the consequences of decisions
 - making decisions that are inconsistent with previously stated long term goals
 - erratic behavior
 - refusal to follow appropriate investment advice
 - inability to understand recently completed financial transactions
 - inattention to grooming and hygiene
- Investment Advisor Representatives may not use "senior designations", implying education and skills that should be of particular benefit to senior investors, without prior approval from the Compliance Department.

- Being vigilant of signs in the investor's account and behavior that may indicate elder financial abuse. An Investment Advisor Representative, suspecting that a senior investor may be subject to financial abuse, must bring their concerns to the attention of the Chief Compliance Officer.
- As with all seminars, Investment Advisor Representatives must have prior approval from the Compliance Department for seminars or lunches directed to seniors.

In addition, the following procedures and "best practices" should be followed in advising senior investors:

- Investment Advisor Representatives should consider increasing their contacts with senior investors to remain informed about changes in the investors' financial needs, employment status, and physical and mental health.
- Requiring frequent updates of new account information.
- Investment Advisor Representatives should educate investors about the benefits of having a power of attorney and when appropriate, encourage investors who are in good health to share details of their financial affairs with trusted family members, estate lawyers and/or other professionals to help ensure that if the investor's health deteriorates, their financial affairs will be properly handled.
- Documenting conversations with investors in the event the investor has problems with lack of recall or to assist in clarifying conversations.
- Sending follow-up letters to investors after conversations and meetings to document and reiterate discussions.
- Avoid financial jargon in financial discussions and product presentations.

KAI/KSI has a Senior Committee, located within the Compliance Department, trained to evaluate and assist Investment Advisor Representatives that encounter a senior client with diminishing capacities, or a situation where abuse of the elder is suspected.

Supervision

The Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer are responsible for supervision of offers and sales to senior investors.

Section 15

Receipt and Delivery of Customer Funds and Securities

KAI follows KSI's procedure with regards to the receipt and delivery of customer funds and securities. KSI operates under Section 15c3-1(a)(2)(iv) of the SEC net capital rule (the "Rule"), and is required to promptly transmit all customer funds and securities to the clearing firm or product issuer. Investment Advisor Representatives must ensure that all checks and securities received are forwarded by the next business day following the receipt of the check or security; at KAI, each department that receives checks is responsible for performing the same function. The SEC provides a safe harbor, however, for check holds of up to seven business days if the reason for the hold is to conduct a suitability review of subscription-way applications.

The Rule does not allow KAI to accept customer checks for transactions made payable to KAI; it is KAI's policy to return to the customer all such checks made payable to KAI.

Sending Securities to KAI

Securities must be properly endorsed and must be accompanied by the Stock Certificate Deposit Client Letter.

Other documentation may be needed, such as in the following examples:

- When stock is registered to two owners as a jointly held registration, and the stock is being deposited into an account held by only one of the owners, then a Letter of Authorization from the other owner shown on the stock must be completed.
- Conversely, if a stock is registered to a single investor, and the stock will be deposited into a joint account, the Letter of Authorization from the current owner is needed.

KAI does not accept stocks registered to third parties.

Securities Received and Shipped Blotter

Each office must maintain a Securities Received and Delivered Blotter that shows the following information:

- The date the security was received
- Client name & account number
- Name of issuing corporation or symbol
- CUSIP number
- Certificate number
- Number of shares
- The date the securities were forwarded

- Location that the securities were forwarded to (generally, a clearing firm)
- Tracking or shipping number

The Blotter must contain an area where the Branch Manager, Person-in-Charge or field OSJ Principal can evidence their daily review of the Blotter.

Checks and Other Financial Instruments:

KAI will process checks payable to:

- The clearing firm(s)
- For direct business, the issuer
- Checks payable to the registrant on the account that the check is being deposited into: this applies only to checks being deposited into a brokerage account. The check must be endorsed to the clearing firm on the reverse side by the payee.
 - Cashier's checks with the remitter shown. The remitter must be the client.

The following checks are generally not accepted:

- Cashier's checks without a remitter, or one where the client is not the remitter (third party remitter)
- Cash
- Money orders
- Starter checks, unless accompanied by a bank letter
- Traveler's checks
- Credit card checks
- Checks payable to Kovack Securities, Inc. or any other third party
- Counter checks

Checks Received and Shipped Blotter

Each office must maintain a Checks Received and Delivered Blotter that contains the following information:

- The date the check was received
- Client name
- Check number
- Check amount
- The payee shown on the check
- The account number that the check will be deposited into

- To what location the check was sent (ex: KAI Home Office, Pershing, NFS, a product issuer, third-party money manager)
- The date the check was forwarded to the location shown above, and the means used (US mail, FedEx, etc.).

A copy of the check must be retained with the Blotter. If the check holds an endorsement, then a copy of both sides must be kept. The Blotter must contain an area where the OSJ Principal, Branch Manager, or department reviewing/approving principal, in the case of the main office, can evidence their daily review of the Blotter.

Prohibition on Cash

No office can accept cash or cash equivalents.

Questionable financial instruments

The Compliance Department must be contacted for guidance upon receipt of any financial instrument that raises concerns.

Mobile Check Deposit

In some cases, checks can be processed by using Mobile Check Deposit. These deposits are additionally subject to KSI's Mobile Check Deposit procedure. If the check is received and retained by the Investment Advisor Representative, the following procedure must be followed:

- Once the check is successfully submitted to KAI/KSI, the check must be notated to show that the check has been deposited. This can be done manually, or with a stamp.
- The deposit must be recorded on the branch "Checks Received and Delivered" blotter, and a copy of the check kept with the blotter. If the check is endorsed, then a copy of both sides must be kept.
- Deposited, stamped checks must be retained in a secure location for thirty days.
- Once the thirty days have elapsed, the check must be destroyed in secure manner, such as by use of a shredder.

Checks sent directly to product issuer:

Subscription-way applications can be transmitted electronically to KAI/KSI while the Investment Advisor Representative retains the check pending approval. While the application is under review, the check must be stored in a secure manner. Once approval is received, the check and application must be promptly sent to the issuer. The check must be recorded on the Checks Received and Delivered Blotter, and mailed to the issuer.

If the transaction is rejected by KAI, the Investment Advisor Representative must notify the client and promptly return the check to the client.

Wire Transmittals

Wire transmittals are effected only with a signed Letter of Instruction (LOI) from the account holder; a KSI principal must approve the transmittals prior to processing. Generally, third party wires are subject to the following additional procedures:

- An OFAC check is performed on the receiver of the funds;
- An explanation on the use/purpose of the funds must be provided, along with information about the relationship of the receiver to the issuing party; and
- Verbal contact with the client to verify the instructions.

Check Transmittals

Check requests must be reviewed and approved by a principal prior to processing; the review includes reviewing transactions in the account for the prior ninety days. For checks being sent to the account holder, a Letter of Instruction (LOI) is required for all check requests of \$100,000 or more. The LOI must include an explanation on the use/purpose of the withdrawal. Additionally, KAI may place a recorded call with the client.

All third party checks requests, which includes checks sent to an alternate address, must have an LOI, and are subject to the following additional procedures:

- An OFAC check is performed on the receiver of the funds;
- An explanation on the use/purpose of the funds must be provided, along with information about the relationship of the receiver to the issuing party; and
- Principal review and approval.

While unusual, any third party transmittals where the third party is a KSI Registered Representative or KAI Investment Advisor Representative receive additional scrutiny. Such transmittals will only be permitted in cases where there is a bona fide business reason, such as an approved Outside Business Activity through which the Investment Advisor Representative rendered a service for compensation.

On occasion, KAI permits the hand delivery of checks. Generally, an additional approval from Compliance is required.

Supervision:

The Branch Manager, Person-in Charge or field OSJ Principal of each branch office is responsible for the ensuring that:

- All checks and securities are promptly shipped in a reasonably secure manner.

- The Securities Received and Delivered log and the Checks Received and Delivered log are properly maintained, and that their review is evidenced.
- Securities being shipped are in good delivery; if not, then the securities must be promptly returned.
- Checks being received are in good order; if not, then the check must be promptly returned.
- While held in the branch, checks must be kept in a secure manner.

The Branch Manager, Person-in-Charge or field OSJ Principal is supervised by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

The Vice President of Operations is responsible for:

- Monitoring the transmittal of funds and ensuring that appropriate methods of follow-up, notification, or confirmation are documented. Such transmittals can include the following types of transmittals:
 - From customers to third party accounts, wherein a change of beneficial ownership occurs.
 - From customers to outside entities.
 - From customer accounts to locations other than a customer's primary residence.
- Receipt and forwarding of checks and securities in accordance with SEC and FINRA regulations.
- Review and approval of the main office Securities Received and Delivered log, and the Checks Received and Delivered log.

The Vice President of Operations is supervised by the Executive Vice President.

Section 16

New Account Opening

Account Opening for Individuals:

When opening a new account for a client, the Investment Advisor Representative must use reasonable due diligence to learn the essential facts concerning each customer, and have reasonable grounds for believing that such an account is appropriate for the customer

In making a recommendation(s), the Investment Advisor Representative must do so in the client's best interest, and uphold the fiduciary standard.

All new account applications and subscription-way direct business applications are submitted to New Accounts Operations. New Accounts Operations conducts an initial review of the new paperwork, and notes any exceptions found. New Accounts Operations also obtains the Customer Identification Program (CIP) report, and performs a check to see if the client appears on the Office of Foreign Asset Control (OFAC) list. The application forms are then forwarded to the New Accounts Principals Department for principal review.

The New Accounts Principals Department addresses any exceptions found by the New Accounts Operations Department, and conducts an additional review to determine if there are any other exceptions. In addition, the new account paperwork is reviewed for suitability; if the new account paperwork is accompanied by transactional paperwork, the proposed transaction is also reviewed for suitability. All exceptions found are addressed by the New Accounts Principals Department. If satisfactorily resolved, the account and/or subscription-way direct business application will then be approved by the reviewing principal in the New Accounts Principals Department; if not, the account and/or subscription-way direct business application will be rejected. Once established, accounts are periodically reviewed for activity level and holdings vs. the client's financial objectives and risk profile.

Account Opening for Entities

Certain accounts, such as corporate accounts, trust accounts and other entity accounts will require additional documentation. For example, trust account applications must be accompanied by the fully executed appropriate trust document showing the name of the Trust, names of the trustees and the trustee powers. Account applications for corporations, regardless of the corporate structure, must be accompanied by the Articles of Incorporation, or the applicable charter documents, and the fully executed Corporate Resolution. Limited Partnerships must provide the Limited Partnership Agreement, and 401(k) plans must provide the Plan document. Documents that are not in English must be accompanied by an official translation. In all cases, the documents must show that the entity has the ability to perform the range of investment activities contemplated, and that the person(s) signing for the entity has the power to do so on behalf of the entity.

Discretionary Accounts

KAI will carefully review accounts where the client is granting full or limited discretion to another person. KAI requires the submission of a Durable Power of Attorney, and will conduct a CIP check on the person being granted authority over the account.

Discretionary accounts where full or limited discretion is given to the Investment Advisor Representative are only permitted with written authorization via the KAI Client Services Agreement.

Retirement Accounts

Retirement accounts require the applicable KAI new account forms, and in some cases, also present unique considerations. For example, if recommending a rollover from a retirement plan to an IRA, a number of factors must be reviewed, including:

- Investment options are generally broader in an IRA than in a plan. However, an investor may prefer fewer investment options in order to access the low-cost institutional shares that are available in some plans.
- Fees and expenses: these typically are investment-related expenses, and plan or account fees. In rolling to an IRA, investors will pay a management fee to the Investment Advisor Representative, custodial and administrative fees, and may pay an account set-up fee; some of these costs are paid by the employer in an employer-based plan, or not incurred at all.
- Different levels of service are offered by employer based plans and IRAs, such as access to investment advice, planning tools, telephone help lines, educational materials and workshops. The components of different plans may be important to clients.
- Penalty-free withdrawals may be available from some employer plans if the former employee is between 55 and 59 1/2; similar withdrawals may generally be made from an IRA at only at age 59 1/2. It may also be easier to borrow from a plan.
- Plan assets generally have unlimited protection from creditors under federal law, while IRA assets are protected in bankruptcy proceedings only, and up to certain limits for some IRAs. State laws vary in the protection of IRA assets in lawsuits.
- If an employee is still working at age 70 1/2, he or she is generally not required to make the RMD that is required from an IRA. This may be advantageous for those who plan to work into their 70s.
- Tax considerations must be taken into account, such as when appreciated employer stock is rolled into an IRA; in this case, distributions will be taxed as ordinary income.

Investors are permitted only one tax-free IRA rollover per year, wherein the investor receives the funds for up to sixty days. It does not include trustee to trustee transfers or Roth conversion IRAs. If a client requests an IRA rollover that is not a direct transfer, Investment

Advisor Representatives should make clients aware of this; their notification to the client should be documented.

Options Accounts

The procedures to be followed when opening an option account are covered in the section entitled "Options".

Uniform Gifts to Minors Act ("UGMA") and Uniform Transfers to Minor Act ("UTMA") Accounts

The establishment of these accounts allows an adult, acting in a custodial capacity, to hold and trade in securities on behalf of a minor. The account must be established under the laws of the state where the minor is domiciled, and the Investment Advisor Representative must be licensed in both the minor's state of residency and the custodian's state of residency. A custodial account belongs to only one child, and funds from this account cannot be transferred from the account to another child's account. A gift made into an UGMA or UTMA account has no limits and is an irrevocable transfer of the donor's interest to the minor. The transaction is complete when the securities are registered in the name of the custodian for the benefit of the minor. When establishing such an account, the minor's tax identification number and their financial information is used. Margin and option accounts are not permitted as custodial accounts. Once the minor reaches the age of majority, the minor becomes the owner of the assets.

In establishing UGMA or UTMA accounts for minors, Investment Advisor Representatives need to advise clients of all relevant factors of these accounts, including but not limited, to:

- C. Transfers are irrevocable, regardless as to:
 - 1. whether the donor himself at a later time may need the monies gifted to the minor
 - 2. the character and maturity of the minor upon reaching the age of majority.
- D. The restriction of one child per account can sometimes mean that there are limited means to set up similar accounts for subsequent children.
- E. There are tax considerations, including gift taxes, income taxes and estate taxes.
- F. The impact of the minor's ownership of the assets held in the account on financial aid and scholarships.

Accounts for employees of other financial services firms

Prior to opening a brokerage account for an employee of another Broker/Dealer, a stock exchange or FINRA, the Investment Advisor Representative must notify the Compliance

Department in writing of the new account holder's affiliation, who will then notify the employing Broker/Dealer firm. Should the employer firm request duplicate confirms and/or statement, KAI is required to comply with the request.

Account Fees

At both account opening and in the course of servicing the account, Investment Advisor Representatives are responsible for advising clients of all fees associated with opening, maintaining and trading in the account. When a client has an alternative method of effecting a transaction, the Investment Advisor Representative must advise the client of that alternative. For example, a processing fee may be incurred in liquidating a mutual fund or UIT through KSI or KAI that would not be charged if dealing directly with the fund sponsor.

After the Account is Opened

As required under SEC rules, a copy of the account record will be provided to the customer by KAI or the clearing firms, as applicable, within thirty days (30) of account opening. Updates to the account form shall occur when the client provided material updating information. At least once every thirty-six months KAI will provide to the client a record of the financial profile information on file. Changes to customer investment objectives or other financial information must be submitted in written form to the Account Services Department, who will make the requested changes, or to the clearing firms, who also make the requested changes.

Changes to the customer address must be submitted in writing by the customer, and must be signed by the customer. Validation letters to the customer must be sent within thirty (30) days of the change to both the old and new addresses, and such letters must be retained in the firm's records.

The new account documents, with their updates, are an important Investment Advisor Representative resource and are intended to be used frequently. Investment Advisor Representatives are responsible for periodically reviewing the information shown in the document to confirm that, to the best of their knowledge, the information is current and that the client's investments are compatible with their stated financial objectives and financial situation.

Terminating an Advisory Account or Financial Planning Service

An advisory account or financial planning service can be terminated by submitting a written request. The client will be refunded any unused fees.

Supervision

The New Account Operations and Account Services Department are under the supervision of the Executive Vice President, while the New Accounts Principals Department is supervised by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 17

Customers with Risk Factors

In addition to any client that presents possible red flags under the FTC FACT Act Red Flags Rule, KAI has determined that potential clients can pose other risks. Accordingly, it is KAI's policy to not accept certain new accounts, including, but not limited to, those of :

- Any individual who has participated in any frivolous securities lawsuit that had no genuine basis
- Any individual who has accepted a rescission offer extended on technical grounds to take advantage of interim market changes or developments
- Any individual who is, or reasonably can be expected to become, a credit risk
- Any individual who insists on an investment course of action that is unusual or excessively risky
- Any individual who refuses to supply essential data that is needed in assessing the suitability of the person for the proposed investment(s)
- Any individual who was or who is reasonably believed to be involved in unlawful or unethical activities
- Any individual who seemingly is unable to understand the new account application and investments in general, due to, for example, limited language skills, diminished mental capacity, or overall inability to understand the nature of investments.
- Any individual who appears to be subject to cognitive decline, or is otherwise mentally impaired
- Any individual or entity that presents risks in light of KSI's Anti-Money Laundering Program

Investment Advisor Representatives must be alert to adverse information about existing and prospective clients, and must bring the information to the attention of the Chief Compliance Officer. KAI reserves the right to reject or close any customer account at its sole discretion.

Section 18

Customer Account Review

A sampling of the firm's customer accounts will be reviewed periodically, with the goal of detecting unsuitable trading patterns, unsuitable recommendations, and other potential sales abuses. Reviews strive to be conducted on a non-repetitive, fixed percentage of accounts. Reviews will consider a number of factors in light of the client's investor profile, and will generally include, as applicable, the following areas:

- The types of securities trades
- Excessively large positions in the client's portfolio, either in an individual security or in an industry concentration
- Lack of liquidity
- Volume of trading
- Holding periods, especially in volatile investments
- Whether the portfolio and activity is consistent with the client's investment objectives and risk tolerance
- Whether the client has sufficient liquid net worth, annual income and investment experience necessary to understand and assume the risks of the investments
- Expenses associated with the portfolio
- Substantial trading profits or losses
- Unusual transactions
- Margin balances
- Fee structure

Should concerns arise during the course of the reviews that cannot be resolved by a more extensive investigation, the Investment Advisor Representative will be contacted to request an explanation. The explanation will be documented. If the information provided by the Investment Advisor Representative proves to be sufficient, the Chief Compliance Officer will determine if any further action should be taken, including on-going monitoring of the account for a period of time, restricting the account, or heightened supervision of the Investment Advisor Representative.

Supervision

The Chief Compliance Officer is responsible for overseeing periodic reviews of sample accounts, and any actions taken as a result of the reviews.

Section 19

Financial Plans

KAI has reviewed and approved financial planning software programs for use in creating financial plans for clients: Investment Advisor Representatives can use only the approved financial planning software. Completed plans must be submitted to KAI within a time frame that provides KAI with at least five business days for review and approval prior to client delivery.

Approved financial planning software

Approved financial planning software include:

eMoney

Money Guide

Pro Money Tree

Retirement Analyzer Pro

Retireup

Riskalyze

Scanalytics

Naviplan

Thomas Gold

Investment Advisor Representatives may request approval for other financial planning software by submitting the request to KAI, along with the FINRA letter. The FINRA letter does not ensure KAI approval, but is a required as part of the submission. In addition, please allow for ten business days for the review.

Other Requirements

The Client Services Agreement for Financial Plan must be completed by the client, and the plan must be submitted to KAI prior to delivery to the client. The maximum hourly rate that can be charged for plan preparation is \$350.00. Clients who choose to cancel the financial planning process before plan completion must be refunded the unused balance.

Supervision

The Chief Compliance Officer oversees financial plans.

Section 20

Margin Accounts

A margin account is an account that allows investors to borrow funds from KAI's clearing partners to purchase additional marginable securities. A customer also may enter into short sales through a margin account, wherein the customer borrows the stock so as to sell it. Given the risks associated with both types of transactions, Investment Advisor Representatives must exercise great care in recommending that a client execute transactions in a margin account, and keep the fiduciary standard in mind.

Margin requirements, both initial and maintenance, are governed by the Federal Reserve Board's Regulation T ("Reg T"). KAI's clearing partners may adopt more restrictive "house" requirements for specific stocks or in volatile markets.

Prior to opening a margin account

Before a client opens a margin account to purchase shares on margin, Investment Advisor Representatives must ensure that their client understands:

- What margin calls are, sell-outs, and the impact of a volatile market on both.
- The importance of the client monitoring their accounts, especially during volatile markets, so as to be able to meet a margin call and avoid a sell-out.
- That margin accounts can lose more funds than deposited in the account. A decline in the value of securities that are purchased on margin may require the investor to provide additional funds to avoid the forced sale of those or other securities.
- KAI's clearing partners can force the sale of securities in the investor's account to cover a margin deficiency; the sale can occur without the client's foreknowledge.
- A sell-out may freeze the account for ninety (90) days, during which the investor can only make fully paid purchases.
- Investors are not necessarily entitled to an extension of time on a margin call. An investor may or may not be able to obtain an extension.

If the client is opening the margin account to enter into short sales, the Investment Advisor Representative must ensure that the client understands:

- The nature of a short sale: the investor is borrowing the stock in order to sell it.
- The rewards and risks of a short sale: if the price of the stock declines, the investor will make a profit, and if the stock rises in value a loss will be incurred.

In either transaction, the investor must be made aware of the costs associated with a margin account, principally borrowing and transaction costs.

Opening a Margin Account

Customers must complete the clearing firm's Margin Agreement, in addition to the new account paperwork, if the account is new.

The client must also receive a copy of the Margin Disclosure Statement at or prior to the account opening, or when margin privileges are added. If the account will be held at Pershing, this is a separate document; for NFS accounts, the Margin Disclosure statement is made part of the Margin Agreement.

Procedures specific to short sale transactions

In compliance with Regulation SHO, KSI must "locate" the stock prior to executing a short sale. The firm must have reasonable grounds to believe that the security can be borrowed so that it can be delivered on the delivery date. If any firm has a relatively substantial number of delivery failures, additional delivery requirements may be imposed.

Supervision

The New Accounts Principals Team is responsible for the approval of margin accounts; the Vice President of Trading is responsible for compliance with Regulation SHO, and compliance with Regulation T. The Trading Risk Manager supervises suitability and other compliance considerations. The New Accounts Principals Team and Trading Risk Manager are supervised by the Senior Vice President/ KSI Chief Compliance Officer and the Chief Compliance Officer, and the Vice President of Trading is overseen by the Executive Vice President.

Section 21

Options

Procedures for Accepting Options New Accounts:

Care and diligence must be exercised by the Investment Advisor Representative when opening an options account, as the Investment Advisor Representative has the primary duty to know the customer and determine suitability. For each recommendation made, the Investment Advisor Representative must have a reasonable basis to believe that any recommendation made to a customer is suitable for that customer, based on the customer's financial needs, situation and objectives. This applies to any single transaction or a series of transactions that may be part of an overall strategy. Options accounts can only be approved by, or under the supervision of, the Registered Options and Securities Futures Principal ("ROSFP"), who will sign and date the account application to evidence approval.

Account Approval

Though the customer may have been engaged in other types of securities activities, it is required that the account obtain specific options approval before placing an options trade. No order may be placed prior to final approval of the account by the ROSFP, or the ROSFP's qualified designee. Generally, a customer's account may be approved for either Level One or Two of options trading:

- Level I: Covered writing of equity calls
- Level II: Covered writing of equity calls
Covered writing of equity puts
Purchase of equity and index calls and puts
Purchase of equity and index straddles or combinations
- Level III: Covered writing of equity calls
Purchase of equity and index calls and puts
Purchase of equity and index straddles or combinations
Equity spreads
Covered writing of equity puts
- Level IV: Covered writing of equity calls
Purchase of equity and index calls and puts
Purchase of equity and index straddles or combinations
Equity spreads
Covered writing of equity puts
Uncovered writing of equity calls and puts
Uncovered writing of equity straddles or combinations

- Level V: Covered writing of equity calls
Purchase of equity and index calls and puts
Purchase of equity and index straddles or combinations Equity spreads
Covered writing of equity puts
Uncovered writing of equity calls and puts
Uncovered writing of equity straddles or combinations Uncovered writing of index calls and puts
Index spreads
Uncovered writing of index straddles or combination

Once the account is approved, the account will be coded to indicate the level of approved trading.

Documents to be furnished to new options customers

- The current Characteristics and Risks of Standardized Options (also known as the "Options Disclosure Document", or the "ODD") must be provided to each new customer at or prior to the time the customer's account is approved for trading in options. Thereafter, a copy of each amendment to the ODD shall be distributed to each customer who previously received the ODD not later than the time of delivery of the confirmation of the first options transaction following the availability of the revised disclosure document.
- In addition, the Special Written Statement for Uncovered Options Writers ("Special Written Statement") shall be delivered to each new customer at or prior to the time such customer's account is approved for writing uncovered short options transactions. A copy of each revised Special Written Statement shall be distributed to each customer having an account approved for writing uncovered short options not later than the time of delivery of the confirmation of the first options transaction following the availability of the revised disclosure document.
- Copy of the account agreement: within fifteen (15) days after a customer's account has been approved for options trading, KAI shall obtain from the customer a signed agreement stating that he or she is aware of and agrees to be bound by the rules of the ODD and FINRA's position limits. This agreement has been incorporated into the Options Agreement and Approval form by Pershing, and by NFS in the Options Account Request form.

Verification of Account Information

If the customer(s) being approved for options trading did not complete the application themselves, within fifteen (15) days of account approval, KSI shall send, or have sent, to the customer for verification the background and financial information used by KAI to determine suitability.

Within fifteen (15) days of becoming aware of changes in any customer's information, KAI must:

- update the information the firm has on the customer, and
- send the updated material to the customer for verification, so as to provide the customer with an opportunity to correct or complete the information.

In all cases, absent advice from the customer to the contrary, the information will be deemed to be verified.

Options Trading Limitations

KAI imposes limitations on options trading, including, but not limited to, the following:

1. Custodian Accounts: only covered call writing is permitted.

2. Trust Accounts: upon receipt of a trust agreement, trust accounts may be approved for option trading if the trust document includes options language and margin authorization to that effect; otherwise, an amendment to the trust must be furnished prior to this type of trading and only after written approval by the ROSFP.

- *Investment Clubs:* upon receipt of the investment club agreement, investment clubs may be permitted to purchase calls and write covered call options only. Investment clubs are not permitted to do spreads or uncovered writing.
- *Corporations:* all corporate option accounts require a copy of the Corporate Charter or Articles of Incorporation. The extent to which the corporation may trade options will depend upon the specific authorizations stated in the charter or amendment thereto. If no specific language regarding options appears, only covered call writing may be permitted after a corporate resolution has been received.
- *Partnerships:* upon receipt of the Partnership Agreement, partnerships will be permitted to purchase calls, write covered call options, and uncovered call options.
- *Estates:* estate accounts are permitted to write covered call options only, and will not be permitted to do spreads or uncovered writing.
- *IRA Accounts:* covered call and put writing is permitted.
- *Employee Benefit Plans:* pensions, profit sharing, and like accounts may be permitted to write covered call options only.

Uncovered Short Option Transactions

In addition to the above referenced limitations on specific accounts, there are additional requirements for the approval and supervision of accounts engaging in uncovered short option transactions as follows:

- The account must have at least five years of options experience;
- A minimum liquid net worth of at least \$100,000;
- A minimum net worth, exclusive of residence of \$250,000.

These minimums must be maintained in order to continue to maintain approval for uncovered short option transactions.

Review of Options Transactions

All options transactions are reviewed prior to placing the order, using a "review and release" trade review. The options review will include, at a minimum, examining options transactions for:

- Suitability of transaction;
- Large purchases of "out of the money" contracts close to expiration;
- Unusual option strategies; and
- Frequency of options trades.

A designated Options Principal, under the supervision of the ROSFP shall promptly review each option transaction, and will evidence their review.

In addition, accounts will be reviewed on no less than a quarterly basis for, among other things, overall suitability, suitability of any strategy used, trade velocity and commission charged to the account.

Options Communications

All options communications to customers must be accurate, balanced, and truthful, and contain no omission of material fact. Options advertising and sales literature, as with all advertising and sales literature, must be submitted to the Compliance Department for approval prior to use. The ROSFP, or their qualified designee, must approve advertising and sales literature that makes mention of options.

Options communications must include information to the effect that options are not suitable for all investors. Further, presentations of the opportunities offered by options must be balanced by showing the corresponding risks.

Allocation of Exercise Notices to Customers

The methods used to allocate exercise notices to short options positions in customer accounts must be fair and non-discriminatory. Allocation must be made by using a method of random allocation or a "first in, first out" method. The ROSFP is responsible for reviewing the method used and ensuring that it conforms with the provisions of FINRA Rule 2360. Further, the ROSFP must ensure that options customers are informed of, in writing, of the method used and what, if any, are the consequences to customers of the method selected. For new options customers, this information should be sent together with the ODD disclosure document at the time the account is first approved for options.

Supervision

All option activities shall be supervised by the Registered Options and Securities Futures Principal ("ROSFP"), under the oversight of the Executive Vice President.

Section 22

Equities

Prior to recommending investing or trading in equities to a client, Investment Advisor Representatives must possess a full knowledge of the framework of equity investing, including, but not limited to:

- Share types and classes
- Company size and correlated stock class (large, mid and small-cap)
- Sectors and industries within those sectors
- The nature of defensive and cyclical stocks
- Elements of, and differences between, growth and value stocks
- Effects of various market conditions

In evaluating an individual security within this framework, the Investment Advisor Representative should evaluate a number of factors, including:

- What are the company's products or services?
- Are those products/services in demand, and is that level, at a minimum, sustainable?
- How is the industry as a whole performing?
- How has the company performed in the past?
- What is the nature of the firm's management, and the management team?
- Are operating costs low, or too high?
- How much debt does the firm have?
- What obstacles and challenges does the company face?
- Is the stock worth its current price?

Investment Advisor Representatives must also determine what strategy is most suitable for the investor, given the investor's temperament, risk tolerance and financial profile; client may be more suited for a buy and hold strategy, while another for trading, margin or options.

New Account Opening

Investment Advisor Representatives must follow the guidelines outlined in "New Account Opening" and "Recommendations to Customers" in the Manual. In addition, several other sections in the Manual address specific types of equity transactions, including, but not limited to, sections on margin trading, options, low priced securities, leveraged and inverse leverage products and other complex products; if recommending any of these products or strategies, Investment Advisor Representatives must refer to the applicable section in the Manual.

Supervision

Equity trade operations are supervised by the Vice President of Trading, under the oversight of the Executive Vice President. Suitability and other compliance concerns are overseen by the Trading Risk Manager, under the supervision of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 23

Low Priced Securities

KAI policy defines "low priced securities" as the unlisted shares of any company, or of closed end mutual funds, that are priced at or below \$5.00 per share. Investment Advisor Representatives are prohibited from soliciting purchases of low priced securities. At its discretion, the firm may not accept certain low priced securities via transfer, and may otherwise not accept unsolicited orders in lower priced securities.

Prior to the Transaction:

Prior to placing a trade for the purchase of a low priced security, the Investment Advisor Representative must:

- Obtain from the customer information concerning their financial circumstances, investment experience, and investment objectives to determine what level, if any, of low priced securities transactions might be compatible with the customer.
- Only unsolicited purchase orders are accepted; the Investment Advisor Representative must, when accepting the order, determine that the client has sufficient knowledge and experience in financial matters that they reasonably may be expected to be capable of evaluating the risks of transactions in low priced securities. Generally, KAI requires that the shares are valued at no less than \$2.00 per share.
- Require customer completion of the Low Priced Securities Acknowledgement Form.

Investment Advisor Representatives should not accept buy orders, nor place buy orders, in low priced securities until the account has been approved for trading in low priced securities. In addition, Investment Advisor Representatives must understand that approval is not automatic, that the account may or may not be approved to trade in low priced securities, and that any particular transaction may be rejected by KAI.

Supervision

Low priced securities trade operations are supervised by the Vice President of Trading, under oversight of the Executive Vice President. Suitability and other compliance considerations are supervised by the Trading Risk Manager, under the oversight of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 24

Fixed Income Corporate Bonds and Bond Funds

Recommending Transactions in Bonds or Bond Funds

As with other securities products, recommendations to buy or sell bonds or debt obligations must be in the client's best interest. Prior to recommending a transaction in a bond or debt obligation, the Investment Advisor Representative must carefully review and understand the terms and conditions of the product(s) being offered. For individual bonds, this means understanding important bond features, including the type, term, and yield of the bond, anticipated interest payments, call features, issuer credit-worthiness, collateral securing the bond, pre-payment risk and duration. For other bond products, this can mean, among other things, what type of bonds the product has or will purchase, the general terms, conditions and risks of such bonds, and the costs and fees associated with buying, selling and holding the shares of the fund or UIT. If a recommendation is then made to the client, the Investment Advisor Representative must present to the client a fair and balanced picture of the risks and benefits of investing in these products. For example, in the case of individual bonds, investors should be advised of, among other things, interest rate risks, inflation risk and the risk of default associated with any particular issuer. In the case of other bond products, customers must be made aware of the fact that return of principal is not guaranteed due to fluctuating share prices, and of on-going fees and expenses associated with owning shares of a bond fund.

Supervision

Bond and bond product trade operations are supervised by the Vice President of Trading, under the oversight of the Executive Vice President. Suitability and other compliance considerations are supervised by the Trading Risk Manager, under the oversight of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer. Initial transactions in bond funds placed via direct business are supervised by the New Accounts Principals Team, also under the supervision of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 25

Municipal Securities

Transactions in municipal bonds and municipal bond funds are principally governed by the Municipal Securities Rulemaking Board ("MSRB"); many of the rules and regulations promulgated by the MSRB are similar to those issued by the SEC or FINRA. This section deals with those rules and regulations that are unique to the regulation of municipal securities.

Recommending Municipal Bonds

As with other securities products, recommendations to buy or sell municipal bonds or municipal bond funds must be in the client's best interest. Prior to recommending a transaction, the Investment Advisor Representative must carefully review and understand the terms and conditions of the product(s) being offered. For individual bonds, this means understanding important bond features, including the type, term and yield of the bond, anticipated interest and structure of payments, tax implications of the interest payments, pre-payment risk, duration, minimum denomination, call features, issuer credit-worthiness and source of funding (general obligation, revenue bond or tax-backed). If a recommendation is then made to the client, the Investment Advisor Representative must present to the client a fair and balanced picture of the risks and benefits of investing in these products. For example, in the case of individual bonds, investors should be advised of, among other things, interest rate risks, inflation risk, the risk of default associated with any particular issuer, and if the bond is insured, how the insurance would apply to the issue.

In any presentation, written or oral, on municipal bonds, Investment Advisor Representatives must include the bond's yield to worst, and the lower of the yield to maturity or yield to call. Interest payments cannot be characterized as "tax-free" unless fully tax-free; otherwise, the bond is more accurately characterized as "federal tax-free". Presentations must include all material information.

Transactions in the Secondary Market

Prior to recommending a municipal bond fund transaction trading in the secondary market, the Investment Advisor Representative must review updates to the Offering Statement information. This can include a review of continuing disclosure documents posted on EMMA or of information made available through established industry sources.

Section 529 College Savings Plans

529 College Savings Plans ("529 plans") are created by states, and accordingly are municipal fund securities subject to MSRB rules. 529 plans are tax-advantaged investment programs established to save for qualified higher education expenses. "Qualified education expenses"

includes tuition, fees, books, supplies and some equipment at any accredited college, university or vocational school in the United States and at some foreign universities. Room and board is also covered, as long as the beneficiary is at least a half-time student. There are no age limits to the student's age. Earnings in the 529 plans grow tax-free, and distributions for qualified higher education costs are exempt from federal taxes and may also be from state taxes. If the monies are not used for qualified higher education costs, then there are both taxes and penalties. Most plans allow investors from out-of-state; however, there can be significant state tax advantages and benefits, such as matching grant and scholarship opportunities, protection from creditors and exemption from state financial aid calculations for investors who invest in 529 plans in their state of residence. Accordingly, investors need to consider a number of factors when choosing a 529 plan, including the plan's performance, investment choices, fees and expenses, and tax implications at both the federal and state level.

There are two types of 529 plans:

- Prepaid plans, which allows the investor to purchase tuition credits at today's rates to be used in the future. The issuing state in essence guarantees a minimum performance for the plan based on tuition cost projections and fund performance projections.
 - Savings plans, which differ from prepaid plans in that all gains and losses are based upon the market performance of the underlying investments, typically mutual funds. Most 529 plans offer a variety of age-based asset allocation options where the underlying investments become more conservative as the beneficiary gets closer to college age.
- IRS regulations limit transactions in these accounts to no more than one per year.

Investment Advisor Representatives, when presenting these plans to potential investors, must carefully delineate all the tax and cost implications in investing in any one of the various state plans, in particular, when not investing in their state's plan, and should advise the client to consult with their financial or tax advisor.

Because of their limitations on trading, however, 529 plans are generally not suited for advisory accounts.

Electronic Municipal Market Access ("EMMA")

EMMA provides on-line access to comprehensive municipal securities disclosure documents, trade prices, interest rate information and market statistics. It is the responsibility of all Investment Advisor Representatives that solicit and trade in municipal securities to become familiar with the information offered in EMMA, and to review an issue's information prior to offering a bond.

New Issue Disclosures

Trade confirmations provide the website address for EMMA so as to fulfill Offering Statement delivery requirements. The bond's CUSIP is also shown on the confirmation, enabling the investor to readily find the Offering Statement.

Supervision

The Municipal Securities Principal, here under the supervision of the Executive Vice President, is responsible for supervising all municipal securities activities.

Section 26

Government Securities

Prior to recommending transactions in U. S. government bonds, Investment Advisor Representatives must carefully weigh the benefits and risks of such an investment and determine that the investment is in the investor's best interest.

Supervision

Government securities trade operations are supervised by the Vice President of Trading, under the oversight of the Executive Vice President.

Section 27

Unit Investment Trusts ("UITs")

UITs are offered by investment companies, as are mutual funds and closed end funds. UIT distinguishing characteristics include:

- A UIT is a fixed portfolio of stocks, bonds or other securities. A UIT will buy a portfolio, and will hold the investments with little or no change for the life of the UIT, thereby creating an easily viewable portfolio. The holdings are supervised by the issuer, and under only occasionally, and generally unique circumstances, may be removed and/or replaced from the portfolio.
- A UIT will typically make a one-time offering of a fixed number of units. However, many sponsors will maintain a secondary market, allowing owners to sell their units back to the sponsor for re-sale.
- UITs have a termination date, when the UIT will terminate and dissolve. This date is established when the UIT is created, and may be, to a greater or lesser degree, reflective of the investments held within the trust. For example, a bond UIT may terminate when the last bond matures. At maturity, investors generally have three options:
- Rollover at a reduced sales charge: investors may roll over, within a certain time frame, into a new series being offered in the primary market.
- Maturity: The UIT will liquidate remaining holdings, and the investor will receive a cash distribution of the trust's proceeds.
- In-kind distribution: Investors holding 2,500 units may generally request an in-kind distribution of the underlying shares, either at the time of purchase or maturity.

Supervision

UIT trade operations are supervised by the Vice President of Trading, under the oversight of the Executive Vice President. Suitability, application of breakpoints and other compliance concerns will be overseen by the Trading Risk Manager under the supervision of the Senior Vice President/ KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 28

Complex Products

Generally, a product will be considered complex if it has multiple features that affect investment returns under different scenarios, or if the product lacks transparency. Examples of complex products can include the following:

- 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;
- Some unlisted REITs, because of liquidity and valuation issues;
- Products that include an embedded derivative component, such as structured notes using the constant maturity swap rate as the reference asset or an index, steepener notes, reverse convertible notes, and range accrual notes;
- Leveraged and reverse leveraged funds; and
- Products with complicated limits or formulas for the calculation of investor gains.

Investment Advisor Representatives must fully understand the product and all of its components, and how the product might behave under different market conditions, both individually and in concert. Additionally, the following should be considered:

- For whom is this product intended?
- To whom should this product not be offered to?
- What are the investment objectives of the product, and is that investment objective reasonable in relation to the product's characteristics?
- Can less complex products achieve the objectives of product?
- What assumptions underlie the product, and how sound are they?
- How is the product expected to perform in a wide variety of market or economic scenarios?
- What market or performance factors affect the investor's returns?
- What are the risks for investors?
- If the product is designed mainly to generate yield, does the yield justify the risks to principal?
- Does the product present any novel legal tax, market, investment or credit risks?
- Does the product's complexity impair understanding and transparency of the product?
- How liquid is the product?
- Is there an active secondary market for the product? If not, does the investor have sufficient liquidity to hold the investment to maturity?
- Is the principal protected, and if so, what limitations are placed?
- What will the investor receive at maturity?
- If there is a reference asset, to what extent does the investor participate?

- If one is used, what is the reference asset, and what is its composition? Is the index a little-known proprietary index? How will the reference asset perform under various market scenarios?
- If interest payments are made, how is the interest accrued? If linked to a reference asset, how does the performance of the reference asset affect the interest paid?
- Does the product have call features?
- What caps or floors are placed on interest?

Sales presentations

All sales materials and oral presentations must present a fair and balanced picture that demonstrates both the risks and benefits of investing in the product. This includes, but is not limited to, the following examples:

- Marketing material should not present structured products as "conservative" or a source of "predictable income", unless such statements are true.
- Investment Advisor Representatives cannot infer or suggest that a complex product is an ordinary debt or equity security.
- Investment Advisor Representatives cannot exaggerate the probability that the investor will receive interest or dividend payments, or a full return of principal.
- Annualized yield and coupon information cannot be presented in misleading manner; for example, emphasizing the maximum coupon payment without giving equal prominence to the minimum possible coupon payment.
- If the credit rating of a structured product is used, the fact that the creditworthiness of the issuer does not affect or enhance the likely performance of the investment.
- Secondary market information: there may be no secondary market for the product. The client must be willing to hold the product to maturity. Alternatively, there may be a secondary market, but client may realize significantly less than the purchase price when/if selling on the secondary.
- Depending on the terms of a specific complex product, even a substantially above-market coupon rate may not be reasonable, given the risks and costs associated with the product for a particular customer.

Market linked CDs require additional explanations to clients, since clients may only hear "CD". Clients must understand that market-linked CDs can fluctuate in value and may not have FDIC protection, or FDIC protection only to certain levels.

Suitability

The proposed transaction must be in the client's best interest, and the client must have a full understanding of the product. It is recommended that Investment Advisor Representatives confirm their client's understanding of a recommended complex product with a letter or email.

Additional Requirements

Prior to recommending transactions in certain products, KAI may require that Investment Advisor Representatives complete an educational unit(s) and/or product knowledge test. Additionally, in some cases, KAI may require client completion of a product-specific disclosure.

Supervision

Complex trade operations are supervised by the Vice President of Trading, under the oversight of the Executive Vice President. Suitability and other compliance concerns are supervised by the Trading Risk Manager, under the oversight of the Senior Vice President/ KSI Chief Compliance Officer and the Chief Compliance Officer.

Section 29
Changes in Customer Order Tickets
& Trade Errors

When moving an existing transaction from one account to that of a different account, the new account name and/or account number must be entered onto a new order ticket. The reason for the change must be documented, and must be approved by the Vice President of Trading or their designee. The explanation for the trade cancellation must be retained with the cancelled order ticket.

Trade errors are errors made in the placement, execution or settlement of a transaction without any intention of causing the error. In each case, when trade errors are corrected the client will be returned to the position he would have been in had the error not been made.

Supervision

The Vice President of Trading, overseen by the Executive Vice President, will review changes in customer order tickets and trade errors and corrections.

Section 30

Death of a Client

The Account Services Department must be notified upon the death of a client. Upon receiving notice of the death of a client, the Account Services Department will immediately freeze all accounts. The Vice President of Trading will ensure that all open orders are cancelled.

The Investment Advisor Representative is responsible for promptly providing to the Account Services Department:

- A copy of the death certificate.
- Instructions on how the account should be re-titled. If supporting documentation is required, this too must be provided. For instance, if the new account name is that of a trust account, a copy of the trust document must accompany the instructions.

Supervision:

The Account Services Department is overseen by the Vice President of Advisory and Account Services, under the supervision of the Executive Vice President.

Section 31

Best Execution

KAI must reasonably ascertain that the price of each transaction is as favorable as possible to the customer, given the prevailing market conditions and the services offered by the clearing platform. Some of the factors to be considered include, but are not limited to:

- The character of the market for the security: price, volatility and market depth.
- The size and type of transaction.
- The number of markets available, and the number of those markets checked.
- The accessibility of the quotation.
- The terms and conditions of the order.

KSI is a fully disclosed introducing Broker/Dealer that clears all transactions either through Pershing, LLC or National Financial Services, Inc. Additionally, KAI has agreements with Fidelity Institutional Wealth Services and TD Ameritrade to provide trading, custody, and brokerage services. KSI/KAI will conduct a review of the quality of executions. The review may include some of the following factors:

- The ability to provide executions at the National Best Bid or Offer (NBBO).
- The ability to provide price improvement opportunities.
- The likelihood of execution of limit orders.
- The speed of execution.
- Transaction costs.
- The reliability of trading systems.
- The establishment of procedures to handle volatile market situations.
- The ability to provide real-time notice of the disabling of auto executions systems.

The review will be evidenced and retained.

Supervision

The Trading Risk Manager, under the supervision of the Senior Vice President/KSI Chief Compliance Officer and Chief Compliance Officer, is responsible for overseeing the review of execution reports and addressing any findings that may arise from the review.

Section 32

"Open End" Mutual Funds

Prior to Recommending a Mutual Fund Transaction

In recommending to a customer a transaction in any mutual fund, an Investment Advisor Representative must have a reasonable basis to believe that the recommended transaction or investment strategy is suitable for the customer and in their best interest.

Share Class Selection

Purchases in each share class will be more or less beneficial to any given investor, and Investment Advisor Representatives must carefully consider which class is most favorable to their customer, and whether the account is suited as an advisory account or a transaction based account. Investment Advisor Representatives are encouraged to use the Mutual Fund Analyzer, available on the FINRA website, to assist them in their analysis. Selection of a share class that has a 12b-1 expense is prohibited unless that is the only class available for that mutual fund.

Comparisons to Other Investments

Investment Advisor Representatives should ascertain that investors understand price fluctuations of the net asset value of mutual funds, and that mutual funds will not be as stable as CDs or savings account. Additionally, a mutual fund investment may not be as liquid as a CD or a savings account, which may be the source of funds for the mutual fund purchase.

Rollovers

Prior to recommending a retirement account rollover, Investment Advisor Representatives must carefully review how the assets are currently held, following the guidelines in the "Retirement Accounts" area held in "New Account Opening" section of this Manual.

Suitability Review

Upon receipt of the requisite paperwork, the New Accounts Department will review the application, taking care to review the suitability of the fund or funds for the investor. For recommended subscription-way transactions made for accounts other than employer-sponsored retirement plans and certain other qualified plans, this review can take up to seven (7) business days without violating regulations on holding client funds or securities. In order to utilize this review time, the following conditions must be present and/or met:

- The Investment Advisor Representative must promptly forward the application package to the New Business Department.

- The reason for holding the application package is to allow completion of a suitability review of the transaction.
- During the suitability review process, the client's check must be reasonably safeguarded, following firm procedures and policies for the safeguarding of client funds and securities.
- If the review is completed earlier, then the New Accounts Department must promptly, upon completion of the review and approval, transmit the application package to the issuing insurance company.
- The date that the complete and correct application is received by the OSJ office must be recorded, and the review period then begins.
- The procedures outlined in the section entitled "Receipt of Customer Funds and Securities" for receiving and forwarding customer checks must be followed.

Disclosure Requirements

Prospectus Delivery

Prospectuses are delivered by KAI's clearing partners or the mutual fund issuer with the transaction confirmation.

Supervision

The New Accounts Principals team supervises direct business initial orders and additional orders placed through KAI. The Vice President of Trading supervises mutual fund brokerage trades and the Trading Risk Manager supervises suitability and other compliance considerations. The Vice President of Trading is supervised by the Executive Vice President, and the Senior Vice President/KSI Chief Compliance Officer and Chief Compliance Officer supervise the New Accounts Principals team and the Trading Risk Manager.

Section 33

Variable Annuities

Variable insurance products combine elements of insurance and securities products. Variable annuity insurance transactions can be complex, and are subject to both insurance and securities regulations. Investment Advisor Representatives must be in compliance with all applicable variable annuity insurance regulations, as follows:

Licensing

Prior to effecting trades in variable insurance products, Investment Advisor Representatives must hold the requisite FINRA and state insurance license, and must be appointed by each company whose product they sell or intend to sell. All licenses must remain active, which generally includes annual renewal and fulfilling all continuing education requirements. As there are many levels of registration for insurance licensing, Investment Advisor Representatives should seek assistance from the Licensing and Registration Department, both at KAI and at any insurance company that they seek licensure from.

Recommendation Requirements

An Investment Advisor Representative must have a reasonable basis to believe that:

- The customer will benefit from some of the features of variable annuities, such as tax-deferred growth, annuitization, or a death or living benefit
- The customer has been informed of both the material features of annuities in general, and features that may be product specific, unique to the product or class of products being offered.
- The sub-accounts selected, and any riders and/or product enhancements, are suitable for the customer.

Suitability information about the customer is gathered by the Investment Advisor Representative using the KAI/KSI required forms and incorporated reports, the contract carrier forms, and any state required forms. The required information is outlined in the "New Account Opening" section of the Written Supervisory Procedures, and additional information specific to the purchase of a variable annuity is requested on the KSI/KAI forms.

If the exchange of one variable annuity for another is involved, the Investment Advisor Representative must have a reasonable basis to believe that the transaction as a whole is suitable for the customer, taking into account a number of additional factors, including surrender charges, the commencement of a new surrender period, loss of existing benefits, and

the benefits offered by the new product. The exchange must result in a demonstrable net benefit to the customer. The Investment Advisor Representative must also determine whether the customer has effected a similar exchange within the last thirty six (36) months.

Rollovers

Prior to recommending a retirement account rollover, Investment Advisor Representatives must carefully review how the assets are currently held, following the guidelines in the "Retirement Accounts" area held in "New Account Opening" section of this Manual.

New Account Paperwork & Additional Transactions Paperwork

The client must complete the following KAI/KSI Variable Annuity application forms, and the Investment Advisor Representative must promptly forward it to the New Accounts Department for review and approval. All required items must be completed in their entirety. The KAI/KSI variable annuity purchase application must include the following:

- The application provided by the insurance company.
- The KAI/KSI Client Profile, if not already on file.
- The KAI/KSI Variable Annuity New Account Application, for initial investments.
- The Morningstar Expense Analysis Report.
- Any required state forms that may be required by the client's state of residence.
- For any product NOT available on Morningstar, the KAI Supplemental Variable Annuity Purchase Comparison. If the proposed transaction is a 1035 exchange, the KAI Variable Annuity Supplemental Form must be completed for both contracts if either contract is not available in Morningstar.
- Any forms that client's state may require.

Based on the proposed transaction, the KAI variable annuity purchase application may also include the following:

- The Expense Analysis Report, created to show an analysis of both products, if the transaction is a 1035 exchange.
- If C, L or Bonus shares are being purchased, the Morningstar Annuity Comparison Report. The Comparison must show all share classes available in the policy line being purchased.
- For additional investments greater than \$50,000, the Variable Annuity Additional Investment Form and the Morningstar Expense Analysis Report; if C, L or Bonus shares are being purchased, then additionally, the Morningstar Annuity Comparison Report. The Comparison must show all shares classes available in the policy line being purchased.
- If the annuity is being funded by the sale of another securities product, the KSI/KAI Switch Letter.

If a client is liquidating or surrendering a variable annuity, and is not reinvesting the funds into another securities product, the KSI/KAI Client Liquidation Form is required.

Suitability Review

Upon receipt of the requisite paperwork, the New Accounts Principals Department will review the application, taking care to review the suitability of the product for the investor. For initial, recommended transactions made for accounts other than employer-sponsored retirement plans and certain other qualified retirement plans, this review can take up to seven (7) business days without violating regulations on holding client funds or securities. In order to utilize this review time, the following conditions must be present and/or met:

- The Investment Advisor Representative must promptly forward the application package to the New Accounts Department.
- The reason for holding the application package is to allow completion of a suitability review of the transaction.
- During the suitability review process, the client's check must be reasonably safeguarded, following firm procedures and policies for the safeguarding of client funds and securities.
- The check and application cannot be held longer than seven (7) business days from the date the New Accounts Department receives the complete and correct copy of the application package. If the review is completed earlier, then the New Accounts Department must promptly, upon completion of the review and approval, transmit the application package to the issuing insurance company.
- The procedures outlined in the section entitled "Receipt of Customer Funds and Securities" for receiving and forwarding customer checks must be followed.

Review of Applications

Each application will be carefully reviewed for customer suitability for the product that they are seeking to purchase prior to approval by the New Accounts Department. No application will be forwarded to the issuing insurance company without this review and subsequent principal approval. The review will include, but is not limited to, the following:

- Is the variable annuity reasonably suitable for the client, based on the information provided in the KSI/KAI Client Profile and the KSI/KAI Variable Annuity New Account Form? In general, does the transaction meet the client's financial objectives, given their risk tolerance and time horizon?
- Is the product itself suitable for the client, in light of their financial objectives, risk tolerance and time horizon?
- Is the share class being purchased suitable for the client?
- Are the riders, if any, suitable for the client?

The required Morningstar Expense Analyzer Report will be reviewed to confirm that all required information and assumptions have been used in creating the Report. These include the required Report Sections, termed by Morningstar as follows:

- Fees you pay
- Investment Analysis
- Disclosure
- Expense & Surrender Charge
- Benefits Detail
- Customer Agreement

These sections are all of the options made available by Morningstar.

The Illustration Settings must be reflective of the client's time horizon. Morningstar only allows for time horizons of ten or less years, so KSI has determined that the following "Years to Illustrate" will be used, based on the client's time horizon:

Client Time Horizon (from KAI/KSI VA Application) Morningstar Illustration Setting

Short Term: 0-5 years	1 year
Intermediate Term: 6-10 years	6 years
Long Term: 10+ years	10 years

Investment Advisor Representatives are required to use these Years to Illustrate in the Expense Analyzer, unless the client has a demonstrated different time horizon (though not greater than ten years, due to the unavailability of longer time frames).

The Growth Rate used in illustrations will be determined by KSI annually, or more frequently as economic and market conditions dictate. The highest permissible growth rate allowed as of 8/7/2015 is 5%. Investment Advisor Representatives cannot use a higher growth rate; a lower growth rate may be used, based on sub-account selections.

For annuity purchases where the Investment Advisor Representative will manage the sub-accounts via Choice Annuity, only advisory shares can be purchased.

If the client holds an existing annuity, and wishes to have the Investment Advisor Representative manage the sub-accounts via Choice Annuity, the Investment Advisor

Representative/Registered Representative cannot have earned a commission from the sale of the annuity within the last two years.

Training

A KSI/KAI on-demand webinar that provides training on the use of the Morningstar Annuity Analyzer is available on the firm's website. In addition, Investment Advisor Representatives may periodically receive educational training from KAI/KSI, and are encouraged to seek product

specific training from insurance companies. Finally, many states have continuing education requirements, which must be fulfilled in order to maintain licenses.

Supervision

The New Accounts Principals team, under the supervision of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer are responsible for the supervision of all initial variable annuity transactions, and subsequent transactions placed through KAI.

Section 34

Alternative Investments

Alternative investments include non-traded public real estate investment trusts (REITs), business development corporations (BDCs), closed end interval funds and some unlisted stock offerings; all have restrictions on liquidity. Liquidity may be offered by the issuer annually or quarterly, in limited amounts, and may be subject to surrender charges or other restrictions. Redemptions can also be effected on the secondary market, which, however, is very thinly traded and offers deeply discounted prices.

Suitability Considerations for Alternative Investments

Prior to recommending the purchase of an alternative investment, Investment Advisor Representatives, following the Manual guidelines in the section entitled "Recommendations to Customers", must have a reasonable basis for believing that the purchase of an alternative investment is suitable for the investor. If recommending the purchase of an alternative investment, Investment Advisor Representatives must emphasize the illiquid nature of these product.

Under KAI/KSI guidelines, clients should meet the following general financial standards:

- \$70,000 annual income and \$70,000 liquid net worth
- OR
- \$250,000 liquid net worth

AND

- Investments in one alternative investment should not exceed 10%
- Investments in alternative investments should not exceed 15% of the investor's liquid net worth

For REIT and BDC purchases, states may impose more stringent standards than those shown above. State standards must be adhered to.

Exceptions to these financial guidelines may be made on a case by case basis, and will consider, among other factors, the investor's liquidity, other investments, and investor profile.

In addition, client investor objectives must show a willingness to take the risk that can accompany alternative investments. Of the investment objectives shown on the KSI/KAI Alternative Investment Application, "Capital Appreciation" is most reflective of this. Here, the investor is "willing to invest in securities with moderate to above average historical risk of loss of principal". While alternative investments are frequently purchased for the dividend yield, this is by no means guaranteed. Accordingly, "Income" is an appropriate objective only when used in conjunction with "Capital Appreciation". An "Income" investor is "interested in

investments with a very low risk of principal", which is not descriptive of alternative investments.

Alternative investments are not suited for clients whose primary objective is "preservation of capital". Historically, this asset class has not always been able to provide investors with a return of principal. This investor "seeks to maintain principal", and is willing to accept the lower returns that associated with this defensive position.

Investment Advisor Representatives must review the share class options available to the investor. In advising clients on share classes, the fees and expenses, and the effect of these charges on returns, must be carefully reviewed with the investor. Only advisory shares can be purchased if the investment will be held in a fee-based account wherein the Investment Advisor charges an advisory fee based on the entire account. If a commissionable share class is selected, advisory fees cannot be charged on the asset even if held in an advisory account.

Suitability Review

Upon receipt of the requisite paperwork, the New Accounts Principals team will review the application, taking care to review the suitability of the product for the investor. For recommended transactions made for accounts other than employer-sponsored retirement plans and certain other qualified retirement plans, this review can take up to seven (7) business days without violating regulations on holding client funds or securities. In order to utilize this review time, the following conditions must be present and/or met:

- The Investment Advisor Representative must promptly forward the application package to the New Accounts Department.
- The reason for holding the application package is to allow completion of a suitability review of the transaction.
- During the suitability review process, the client's check must be reasonably safeguarded, following firm procedures and policies for the safeguarding of client funds and securities.
- If the review is completed earlier, then the New Accounts Principals team must promptly, upon completion of the review and approval, transmit the application package to the issuing insurance company.
- The date that the complete and correct application is received by the OSJ office must be recorded, and the review period then begins.
- The procedures outlined in the section entitled "Receipt and Delivery of Customer Funds and Securities" for receiving and forwarding customer checks must be followed.

Investment Procedures

Prior to effecting a transaction, Investment Advisor Representatives are generally required to complete product-specific training on AI Insight. Training is evidenced by completion of an on-line knowledge assessment; Investment Advisor Representatives are required to achieve at least an 80%.

The investor must complete both the sponsor application and the KSI/KAI Alternative Investment Application; the KSI/KAI Client Profile Form must be completed if the client is new to KAI. If recommending a share class with a commission, the Investment Advisor Representative/Registered Representative must ascertain if a breakpoint can be applied. While most REITs and BDCs have an initial breakpoint at \$500,000, some offer the breakpoint at \$250,000. Breakpoints for closed-end interval funds begin at much lower points.

Sale (Liquidation)

Liquidation of a REIT or BDC is the sale of a security, as is the sale of a closed end interval fund. Applicable KSI/KAI forms must be completed, and the transaction must be submitted to KSI/KAI for review and approval. A sale prior to product maturity of a REIT or BDC is approved only by exception, and Investment Advisor Representatives should consult with the Compliance Department before attempting to enter into the transaction.

Supervision

Transactions of subscription-way alternative investments are supervised by the New Accounts Principals team, under the oversight of the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer. Brokerage transactions of alternative investments are supervised by the Vice President of Trading, under the supervision of the Executive Vice President.

Section 35

The Offering Document

The only complete, and required, sales aid or publication for any new issue is the most current prospectus or memorandum, also known as the "Offering Document". Investment Advisor Representatives must be fully familiar with the Offering Document before offering a security for sale. State, Federal and self-regulatory rules and regulations require full disclosure to investors of all pertinent facts and risks to the customer, including but not limited to:

- share class information
- restrictions on liquidations and liquidity
- detailed description of the product
- Delineation of risks associated with the product
- fees, expenses and cost structure

Current Offering Document

The Offering Document used must be the most current one published. Older documents must be disposed of upon receipt of the newest version. The SEC-approved "Profile" document is not a substitute for a prospectus, and must not be used or described as such.

Delivery of the Current Offering Document

Prospectuses are delivered at the time of purchase or confirmation of purchase, generally by clearing firms or product issuers.

Inconsistent Statements

Investment Advisor Representatives are prohibited from making statements, verbal or written, that are inconsistent with the terms of the Offering Document. Delivery of the Offering Document does not negate inconsistent statements.

Supervision

The Executive Vice President, the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer are responsible for overseeing the delivery of the Offering Document for trades placed through the firm's clearing partners.

Section 36

Third Party Money Manager Due Diligence

In considering adding or retaining a third party money manager, KAI will conduct initial due diligence followed by on-going due diligence on the managers selected. The firm collects information from the proposed manager with a Firm Profile Due Diligence Questionnaire and an Investment Strategy Due Diligence Questionnaire. In addition, KAI will utilize other sources to conduct its due diligence, chiefly research and reports provided by Folio Dynamics and PSN. Areas reviewed include, but are not limited to, performance history, management, fee structure and firm history. Generally, KAI requires that the firm have a history of at least five years, a strong performance record, at least \$100 million under management, qualified management with sufficient depth, a solid reputation, proven administrative capabilities, and a definable and demonstrated investment process.

On-going due diligence reviews for changes in any of these areas, with a concentration on performance, changes in portfolio managers or manager styles.

KSI conducts due diligence on products that may be used in KAI portfolios, such as REITs and BDCs: the review procedure for these products is in the KSI Manual.

Supervision

The Executive Vice President supervises due diligence on third party money managers.

Section 37

Regulation S Offshore Securities Transactions

Regulation S provides an exclusion from SEC registration requirements for offerings, either public or private, made outside the United States by both U.S. and foreign issuers. The transactions must be made in good faith, and not as a means of circumventing SEC registration provisions. The availability of the issuer and resale safe harbors is contingent on two general conditions:

- The offer or sale must be made in an offshore, non-U.S. transaction.
- No "directed selling efforts" may be made by the issuer, distributor, any of their respective affiliates or any person acting on their behalf.

Investment Advisor Representatives may trade only firm-approved products.

Supervision

Trading in off-shore products will be supervised by the Vice President of Trading in the same manner that all trades are supervised, and under the supervision of the Executive Vice President. Overall compliance with Regulation S will be overseen by the Chief Compliance Officer.

Section 38

Books and Records

Rule 17a-3 and Rule 17a-4 of the Securities and Exchange Act ("SEA") delineate what records must be made and for what periods of time those records must be maintained. The following is a summary of the SEA record-keeping rules as the rules may apply to Registered Representatives. The retention periods may be less for Investment Advisor Representatives but in each case KAI/KSI requires the lengthier period.

<i>Record to be made under Rule 17a-3</i>	<i>Retention period under Rule 17a-4</i>
Daily trade log, securities received and shipped log, and checks received and shipped log	6 years, the first 2 in an easily accessible place
Client statements	6 years, first 2 readily accessible
Trade tickets and confirmations	3 years; first 2 readily accessible
New account documentation, product applications, disclosure forms, checks, transfer forms, wire requests, all legal docs (POA, etc.)	Life of the account, plus 6 years
Account record; new account information must be kept current within three years, a copy provided to client, and record of providing maintained	6 years after closing the account or the date on which the account information was replaced or updated, whichever is earlier
All communications, both received and sent	3 years, first 2 accessible
Advertising and sales literature, with approval	3 years, first 2 accessible
Records from branch audits	3 years
Customer complaints	4 years
Signature guarantee log	3 years; first 2 readily accessible

If maintained electronically, it is the responsibility of the Investment Advisor Representatives to maintain these records in a "write once, read many (WORM)" SEC-compliant format. For client sensitive information, Investment Advisor Representatives are required to establish and maintain physical and electronic safeguards to guard client personal information against reasonable threats. These safeguards must be in place at all times, and when applicable, must comply with state requirements. If a material breach of any of the safeguards occurs, the Investment Advisor Representative must notify the Compliance Department, who will assess the situation and recommend or take any steps that the situation may require.

Other records must also be made and maintained. These records are more applicable to the firm, as follows:

<i>Record to be made under Rule 17a-3</i>	<i>Retention period under Rule 17a-4</i>
Ledgers reflecting all assets and liabilities, income, expense, and capital accounts	6 years; first 2 accessible
Trail balances, computations of aggregate indebtedness and net capital	3 years; first 2 accessible
Records that support the FOCUS reports and the annual audited financial statements	3 years; first 2 accessible
Organizational records	Life of the enterprise and any successor enterprise
Reports to review for unusual activity in customer accounts	18 months
Record for each office showing name of person who can promptly provide information on the records maintained in that office	6 years; first 2 accessible
Record showing principal(s) who is responsible for establishing policies and procedures	6 years; first 2 accessible
Written supervisory procedures	3 years after the termination of the use of each manual
Registered Representative location record, showing each office where the Registered Representative conducts business, their CRD # and any internal identification code	3 years after the Registered Representative terminates employment
Commission runs for each Registered Representative	3 years, the first 2 easily accessible
Special reports, created at the request of a securities regulatory authority pursuant to an order or settlement	3 years after the date of the report
All banking records	3 years, first 2 accessible
All bills receivable and payable	3 years, first 2 accessible
Registered Representative registration file	3 years after termination

Supervision

The Financial and Operations Principal is responsible for the creation and maintenance of the financial books and records of the firm. The Executive Vice President is responsible for overseeing retention of firm books and records.

Section 39

Heightened and Targeted Supervision

Investment Advisor Representatives may be subject to heightened and/or targeted supervision, in addition to KAI's standard supervisory procedures. This heightened or targeted supervision may be at the request of a regulator, or imposed by KAI.

Regulator Imposed Heightened Supervision

Regulator imposed heightened supervision is generally triggered by a request for licensure within a state. The Chief Compliance Officer shall then decide, based on the supervision required and the event(s) that gave rise to the required heightened supervision, to either:

- Implement the requested supervision;
- Implement the requested supervision, and augment the requested supervision with additional supervisory measures; or
- Terminate the licensing request with regulating authority from which licensing was requested.

The Investment Advisor Representative shall be notified of the heightened supervision, and will be required to enter into an agreement with KAI that delineates the terms of the heightened supervision.

If the Investment Advisor Representative's Form U-4 needs to be amended due to the information received from the Regulator, the Chief Compliance Officer shall notify the Licensing and Registration Department, who will file the amendment.

Firm Imposed Heightened Supervision

The firm may choose to place into effect a firm imposed heightened or targeted supervision for a period of time. The nature of the heightened or targeted supervision can vary: in some cases the Investment Advisor Representative will be required to enter into an agreement with KAI, and yet in other cases the Investment Advisor Representative may not be aware that the heightened or targeted supervision is taking place. The nature, length, and terms of the heightened supervision shall be proscribed by the Chief Compliance Officer, and can include:

- Increased branch office audits
- Increased percentages of email review
- Limitations on products and/or product types offered
- Additional continuing education
- Increased reviews of accounts

Reduced Payout

At the sole discretion of KAI, and to cover the cost of the additional supervision, the payout of any Investment Advisor Representative on heightened or targeted supervision may be reduced for the period that such supervision is in place.

Supervision

The Senior Vice President/KSI Chief Compliance Officer and Chief Compliance Officer is responsible for determining and supervising heightened and/or targeted supervision.

Section 40

Continuing Education

Annual Compliance Meeting

Continuing Education

Investment Advisor Representatives are required to complete firm continuing education. KAI requires annual securities-related training.

It is imperative that Investment Advisor Representatives complete both elements of continuing education by the date specified. Failure to complete KAI's continuing education requirements, barring extraordinary circumstances, may result in disciplinary measures.

Annual Compliance Meeting

An integral part of KAI's efforts to provide ongoing education for Investment Advisor Representatives is the Annual Compliance Meeting, which takes place annually at the KSI/KAI National Conference. If a Investment Advisor Representative is unable to attend the Conference, the Meeting is recorded for later viewing, or Annual Compliance Meeting content is provided via a third party provider; the cost for "attending" the meeting in this manner is borne by the Investment Advisor Representative. Investment Advisor Representatives must attend the Annual Compliance Meeting in their first year of association with KAI. Thereafter, all Investment Advisor Representatives must attend the Annual Conference and Annual Compliance Meeting at least every third year.

Supervision

The Chief Compliance Officer is responsible for overseeing Investment Advisor Representative continuing education and annual meeting requirements.

Section 41

Regulatory Examinations and Audits

Investment Advisor Representatives must immediately notify the Chief Compliance Officer of any inquiry, examination or audit by any regulatory authority. The examination may be a scheduled one, where the Investment Advisor Representative is given prior notice of the audit, or may be an unannounced audit. Any correspondence received from any regulatory authority must be immediately forwarded to the Chief Compliance Officer.

Responding to regulatory inquiries

Prior to submitting any correspondence to any regulatory authority, Investment Advisor Representatives must first submit the draft correspondence to the Chief Compliance Officer for review and authorization for use.

Supervision

The Chief Compliance Officer is responsible for receiving, evaluating and assessing the inquiry information, determining the firm outcome to the Investment Advisor Representative, and determining if any regulatory reporting is required.

Section 42

Annual Certification of Compliance and Supervisory Processes

Registered Investment Advisor firms must establish, maintain and enforce a system of supervisory control policies and procedures that:

- Test and verify that the firm's Supervisory Procedures are reasonably designed with respect to the activities of the firm, its Investment Advisor Representatives and associated persons, to achieve compliance with applicable securities laws and regulations.
- Provide for creating additional procedures or amending existing procedures where the need is identified by such testing and verification.

Annual Review of Supervisory Processes

No less than annually, the Chief Compliance Officer must test, or direct testing, to verify that the firm's supervisory procedures are reasonably designed with respect to the firm's activities and associated persons to achieve compliance with applicable securities laws, regulations and rules. Should the testing demonstrate a need for revision, revised supervisory processes or new procedures must be created to remediate the deficiency.

The review should survey all of the businesses and processes utilized by the firm, and review the applicable rules and regulations. If the firm's procedures are deficient, the procedures must be amended, and the firm's processes then tested for compliance.

In addition to testing for compliance with applicable rules and regulations, the firm must also address information from other sources, such as recent customer complaints, findings from regulatory audits, regulatory inquiries or actions, litigation against both KAI and other firms, findings from branch office audits, and matters in the media that bear attention.

Any identified gaps found from the testing must be addressed through new or amended procedures.

Report of findings

The Chief Compliance Officer must submit to the firm's senior management a report that details:

- The processes used in conducting the testing and review;
- The firm's system of supervisory controls;
- The summary of the test results;
- Significant identified exceptions; and
- Any additional or amended supervisory procedures created in response to the test results.

Supervision

The Chief Compliance Officer is responsible for the annual testing.

Section 43
Regulation S-P
Customer Privacy Policy

Pursuant to Regulation S-P, which deals with the privacy of customer financial information, KAI is required to maintain physical, electronic and procedural safeguards to comply with federal standards to safeguard customer, and former customer, non-public personal information.

KAI does not share customer non-public financial information with non-affiliated companies unless to service the customer's account. Generally, information provided to KAI by a customer or potential customer in the normal course of business is considered non-public personal information. Non-public personal information also includes any list, description or other grouping of customers that is derived from financial information that is not publicly available. Public information is information that KAI reasonably believes can 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.

In accordance with KAI's privacy policy, KAI Investment Advisor Representatives are prohibited from disclosing customer non-public information to non-affiliated third parties, unless to service the client's account, and as permitted by law. KAI Investment Advisor Representatives are required to treat non-public information in a confidential manner. The following procedures shall be followed:

- 1) Access to customer non-public information shall be restricted to only those individuals who are authorized to come in contact with such information provided by customers in order to help process transactions and provide services to customers.
- 2) Non-public customer information shall only be used to service the client's account.
- 3) Customer new account forms and other related account documentation shall be maintained in a secure location and not left in an unprotected manner for others to use, read or copy. This includes both physical and electronic safeguards. Investment Advisor Representatives are required to adhere to the measures delineated in the firm's "Cyber Security Policy/Procedures for Registered Reps", outlined below in part.
- 4) Physical, Electronic and Procedural Safeguards:

Access to non-public personal information shall be limited by physical, electronic and procedural safeguards. Investment Advisor Representatives in possession of client sensitive information are responsible for maintaining safeguards that address current threats to safeguarding client sensitive information, as follows:

Password Protection

- a.) All electronic devices used in **any way** for KSI/KAI business must be password protected.
- b.) Passwords, where applicable, should be at least eight characters long, and contain both alpha and numeric characters.
- c.) All mobile devices, whether Apple IOS or Android, used in **any way** for KSI/KAI business must contain a minimum of four-character password. It is recommended the device be wiped after ten unsuccessful login attempts. This will encrypt them as well.
- d.) All passwords should be changed at least every 90 days.

Data Breach

Any known or suspected data breaches must be reported to the KSI/KAI IT Department immediately at informationsecurity@kovacksecurities.com. A breach is any event that could compromise non-public customer information, and includes, but is not limited to, the following:

- Loss of computer;
- Unauthorized access to emails;
- Accidental emailing of non-public customer information to an unintended recipient;
- Emailing unencrypted non-public customer information; and
- Unauthorized access to your office that could result in non-public customer information being compromised.

A detailed and comprehensive accounting of the event must be submitted to the KSI/KAI IT Department. The IT Department will notify the Chief Compliance Officer and Executive Vice President of any significant breaches. In addition to assisting in determining what course to take, they will evaluate if reporting to appropriate regulatory authority is required.

Computer Equipment

- a.) All computer systems used in **any way** for KSI/KAI business must be located in a secure location.
- b.) All laptops used in **any way** for KSI/KAI business must be whole disk encrypted, with a KSI/KAI-approved encryption package.
- c.) All computers systems left unattended must be locked with a password.
- d.) All computer backups must be kept in a secure and locked location.
- e.) All computer systems must have anti-virus software installed.
- f.) All anti-virus software must have a current subscription and virus definitions must be current.

g.) Only use national and reputable vendors when servicing any device that holds client personally identifying information.

Email and Fax

Any private information transmitted electronically must be sent via secure email. This applies regardless of client instructions to the contrary, as KAI is required to protect client personally identifying information. Faxing cannot be done using a common fax, since most newer machines retain an image of the document. When sending via efax, the secure tier must be used, as offered by most efax providers.

Office and Building Premises

If using file cabinets, drawers must be secured when you are not in your office. Building premises, computer facilities and records storage facilities shall be protected from unauthorized use.

Electronic Storage

Clouds used for storage must be secure. Choose only reputable vendors, and make sure that at no time does the vendor have access to your files.

Document Disposal

Documents must be disposed of in a secure manner, such as shredding or with a document disposal company such as Iron Mountain.

Additional Requirements

Investment Advisor Representatives are responsible for compliance with any applicable state- specific requirements.

Office Employees

Any and all personnel that have access to client information, regardless of their relationship to the Investment Advisor Representative, or however temporary their employment is in your office, must submit their fingerprints to KAI.

5. Annual Privacy Notice

Pursuant to federal regulations, KAI shall provide to new customers the firm's Privacy Notice. The Notice shall be provided at account opening and made available on the firm's website thereafter. Since KAI does not share client information, other than to service the account, KAI is not required to provide the notice annually.

Supervision

The Chief Compliance Officer and the Senior Vice President/KSI Chief Compliance Officer are responsible for the privacy notice.

Section 44

ITPP Red Flags

Red Flag	Detecting the Red Flag
1. Identification presented looks altered or forged.	Investment Advisor Representatives and their supervisors, when applicable, will scrutinize identification presented in person to make sure it is not altered or forged. If an identifying document appears to be altered or forged, the firm will request an additional piece of government issued ID and report the incident immediately.
2. The identification presenter does not look like the identification's photograph or physical description.	Investment Advisor Representatives and their supervisors, when applicable, will ensure that the photograph and the physical description on the identification match the person presenting it. The Investment Advisor Representative or the firm will make additional inquiries as to the reason for the altered appearance.
3. Information on the identification differs from what the identification presenter is saying.	Investment Advisor Representatives and their supervisors, when applicable, will ensure that the identification and the statements of the person presenting it are consistent. If not, they will contact the Compliance Department immediately.
4. 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.	Investment Advisor Representatives and their supervisors, when applicable, will ensure that the identification presented and other information on file from the account, such as driver's license, passport, state identification card, military card, national identification card or other government identification are consistent.
5. The application looks like it has been altered, forged or torn up and reassembled.	Investment Advisor Representatives and their supervisors, when applicable, will scrutinize each application to make sure it is not altered, forged, or torn up and reassembled. If an application is suspected of being altered we will contact the Investment Advisor Representative or client directly to ascertain the facts and move forward accordingly. We may require a new application.

Category: Suspicious Documents

Red Flag	Detecting the Red Flag
6. 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.	The firm will check personal identifying information presented to us to ensure 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, the firm will check to see if the addresses on the application and the consumer report match. If the social security number is found to be listed on the SSA's Master Death File, the account is restricted immediately until further information is provided by the Investment Advisor Representative or client.
7. 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.	The firm will check personal identifying information presented to us to make sure that it is internally consistent by comparing the date of birth to see that it falls within the number range on the SSA's issuance tables. This information is verified by our clearing firms and is followed up by on by KAI/KAI if needed. Customer information for direct business is verified by KSI by utilizing LexisNexis Risk Management Solutions via the InstantID Consumer Verification with Red Flags Rule Report program.
8. Personal identifying information presented has been	KAI/KSI will compare the information presented with addresses and phone

Category: Suspicious Personal Identifying Information

Red Flag	Detecting the Red Flag
9. 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.	KAI/KSI will validate the information presented when opening an account by looking up by using 3 rd party validation services such as Lexis/Nexis. The firm will follow up on material inconsistencies flagged.
10. The SSN presented was used by someone else opening an account or other customers.	KAI/KSI will validate the information presented when opening an account by looking up by using 3 rd party validation services such as Lexis/Nexis. The firm will follow up on any inconsistencies flagged, and will immediately freeze or close any account opened with a suspicious SS.
11. The address or telephone number presented has been used by many other people opening accounts or other customers.	KAI/KSI will validate the information presented when opening an account by looking up by using 3 rd party validation services such as Lexis/Nexis. The firm will follow up on material inconsistencies flagged.
12. A person who omits required information on an application or other form does not provide it when told it is incomplete.	KAI/KSI will track when applicants or customers have not responded to requests for required information and will follow up with the applicants or customers to determine why they have not responded. If the information is not received in a timely manner, the account will be limited to closing transactions or transactions for which suitability can be determined using the information provided. If the information missing is material, no funds are to be disbursed.
13. Inconsistencies exist between what is presented and what our firm has on file.	KAI/KSI will verify key items from the data presented with information we have on file and will reconcile any data irregularities.
14. 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.	KAI/KSI will 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 Personal Identifying Information

Category: Suspicious Account Activity

Red Flag	Detecting the Red Flag
15. Soon after our firm 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.	The firm will verify 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 us. Any additional access means will not be processed for 10 business days after the change of address is processed.
16. 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.	The firm will 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.
17. 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.	KAI/KSI will review accounts where new patterns of activity are being evidenced, such as nonpayment, a large increase in credit use, or a big change in spending or electronic fund transfers. If such a pattern develops, we will contact the Investment Advisor Representative or client for additional information.
18. An account that is inactive for a long time is suddenly used	KAI/KSI will review accounts if alerted to suspicious activity in

again.	long-inactive accounts, and will contact the Investment Advisor Representative or client to confirm re-activation.
19. Mail our firm sends to a customer is returned repeatedly as undeliverable even though the account remains active.	The firm will follow its Returned Mail Procedure.
20. The firm learns that a customer is not getting his or her paper account statements.	The firm will promptly investigate and will take appropriate measures.

21. The firm is notified that there are unauthorized charges or transactions to the account.	KAI/KSI will verify if the notification is legitimate, and will investigate the report.
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Category: Notice from Other Sources

<i>Red Flag</i>	<i>Detecting the Red Flag</i>
22. KAI/KSI is told that an account has been opened or used fraudulently by a customer, an identity theft victim, or law enforcement.	KAI/KSI will verify that the notification is legitimate and involves a firm account, and then investigate the report.
23. KAI/KSI learns that unauthorized access to the customer's personal information took place or became likely due to data loss (e.g., loss of wallet, birth certificate, or laptop), leakage, or breach.	KAI/KSI or the Investment Advisor Representative will contact the customer to learn the details of the unauthorized access to determine if other steps are warranted.

Category: Alerts, Notifications or Warnings from a Customer Credit Reporting Agency

<i>Red Flag</i>	<i>Detecting the Red Flag</i>
24. A fraud or active duty alert is included on a customer credit report	KAI/KSI will verify that the fraud or active duty alert covers an applicant or customer and will review the allegations in the alert.
25. A notice of credit freeze is given in response to a request for a consumer credit report.	The firm will verify that the credit freeze covers an applicant or customer and will review the freeze.
26. A notice of address or other discrepancy is provided by a consumer credit report agency.	KAI/KSI will verify that the notice of address or other discrepancy covers an applicant or customer, and will review the address discrepancy. The firm will generally request that the applicant provide other documentation to verify their residence.
27. 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 credit relationships.	Should the firm use a consumer credit report and encounter this, the firm will verify that the credit report covers an applicant or customer, will review the degree of inconsistency with prior history, and will address appropriately.

Section 45
IDENTITY THEFT PREVENTION PROGRAM ("ITPP")
under the FTC FACT Act Red Flags Rule

Introduction

The Federal Trade Commission's Fair and Accurate Credit Transactions Act of 2003 ("FACT Act") imposes obligations on Broker/Dealers and Investment Advisor Representatives to identify, detect and respond to patterns, practices, or specific activities that could indicate identity theft.

Definition

Identity theft is a crime in which an imposter obtains key pieces of personal information, such as Social Security or driver's license numbers, in order to impersonate someone else. Identity theft is characterized in two ways: true name and account takeover. True name identity theft means that the thief uses personal information to open new accounts. Account takeover theft means the imposter uses personal information to gain access to the person's existing accounts.

Policies, Procedures and Controls

KSI/KAI's Identity Theft Prevention Program, in conjunction with the firm's Cyber Security and Anti-Money Laundering policies, is designed to detect, prevent and mitigate identity theft in connection with the opening of accounts and the maintenance of existing accounts ("Red Flags Rule"), assessing the validity of change of address notifications, and to reasonably respond to the receipt of a consumer reporting agency's notice of a consumer address discrepancy. Central to the Program is the Investment Advisor Representative and the importance of "knowing your customer".

Customer Identification Program ("CIP")

Investment Advisor Representatives must understand the importance of "knowing your customer" as outlined in FINRA Rule 2111. A customer, for purposes of CIP, shall also include the holder of a power of attorney, guardians and custodians, etc. Verification of information on KSI/KAI or KSI/KAI clearing firm partners' account documentation is essential to assist in the prevention of illegal activities and to form a reasonable belief that the Investment Advisor Representative and KSI/KAI know the true identity of a customer. Verification of the client's name, date of birth, telephone number, address, social security/tax identification number and any other relevant information that may be reasonably utilized to identify a customer is required. Investment Advisor Representatives and KSI/KAI must maintain, for a period of six (6) years after the closing of the account, any records obtained or created that led to the verification of a customer's identity. In both cases, these records must be maintained securely.

For purposes of KSI/KAI's Customer Identification Program, the customer's social security/tax identification number shall be defined as follows:

- a) For a U.S. person, a taxpayer identification number.
- b) For a Non-U.S. person, one or more of the following:
 - i) a taxpayer identification number; or
 - ii) a passport number and country of issuance; or
 - iii) an alien identification card number.

For fiduciary accounts (power of attorney, custodianship, estate, guardianship, trust, omnibus accounts, etc.), the identity of the account holder, not the beneficiaries, must be verified. The following procedures shall be utilized to verify customer identity:

- Verification through non-documentary methods: For brokerage accounts, the New Accounts department will, before an account is opened, verify the customer's identity through the comparison of information provided by the customer on the account documentation with information obtained from a consumer reporting agency (generally, Lexis Nexis), public database or other reliable sources. The Department will analyze whether there is consistency between the identifying information provided by the customer with information provided by the consumer reporting agency, public database or other reliable sources. Where there is insufficient consistency between the identifying information the Investment Advisor Representative will contact the customer for additional information to verify the customer's identity. If the inconsistency is then resolved, the account will be opened. However, if KSI/KAI does not believe that it has obtained the required information to reasonably verify the customer's identity, the account will not be opened.
- Verification through documentary methods: the New Accounts Department may alternatively utilize the documentary verification method, provided that the documents allow KSI/KAI to establish a reasonable belief that it knows the true identity of the customer. Documents used for this purpose include an unexpired driver's license or passport for individual accounts, articles of incorporation for a corporate account, a partnership agreement for a partnership account, and a trust instrument for a trust account. To the extent that KSI/KAI does not believe it has obtained the required information to reasonably verify the customer's true identity using the above described verification procedures, an account shall not be opened or maintained at KSI/KAI. KSI/KAI shall maintain a record of all verifying information for a period of no less than 6 years after the account is closed. These records shall describe each substantive discrepancy discovered when verifying the identifying information along with the corresponding resolution.

Comparison with Government Lists

The "OFAC check" is performed, and evidenced, to find if any prospective customer appears on any list of known or suspected terrorists or terrorist organizations issued by any federal government agency, such as those persons and organizations listed on the Treasury's Office of Foreign Assets Control ("OFAC") Web Site. The address for the web site is (www.treas.gov/ofac). A link can also be found by going into finra.org and finding the "OFAC Search Tool" under "Industry Professionals".

The New Accounts Department will perform the OFAC check on new accounts. Evidence of this check shall be maintained for a period of six (6) years after the account closing.

Red Flags

To identify relevant identity theft Red Flags, the following risk factors were assessed by KSI/KAI:

- the types of accounts offered;
- where the accounts are domiciled;
- the methods provided to open or access these accounts; and
- the nature of current identity theft and theft threat.

In addition, KSI/KAI considered Red Flags from the following five categories of the FTC's Red Flags Rule, as these flags fit KSI/KAI:

- alerts, notifications or warnings from a credit reporting agency;
- suspicious documents;
- suspicious personal identifying information;
- suspicious account activity; and
- notices from other sources.

KSI/KAI understands that some of these categories and examples may not be relevant to KSI/KAI, and some may be relevant only when combined or considered with other indicators of identity theft. KSI/KAI further understands that the examples are not an exhaustive or mandatory checklist, but as way to assist KSI/KAI to think of flags that may be relevant to the firm's business. Based on this review of the risk factors, sources, and FTC examples of red flags, KSI/KAI has identified relevant red flags that follow this procedure.

Unauthorized Access Seekers

For the red flags raised by someone seeking to access an existing customer's account, KSI/KAI will:

1. Watch: KSI/KAI will monitor, limit, or temporarily suspend activity in the account until the situation is resolved.
2. Customer Check: KSI/KAI will contact the customer to describe what KSI/KAI has found to determine whether there has been an attempt at identity theft.

3. Heightened Risk: KSI/KAI will determine if there is a particular reason that makes it easier for an intruder to seek access, such as stolen or lost wallet, mail theft, a data security incident, or the customer giving account information to an imposter pretending to represent KSI/KAI or to a fraudulent web site.
4. Check Similar Accounts: KSI/KAI will review similar accounts the firm has to see if there have been attempts to access them without authorization.
5. Report: Should KSI/KAI find that an applicant is using an identity other than their own, in addition to denying the account, KSI/KAI will review the incident to determine if it should be reported to the appropriate local and state law enforcement; where organized or wide-spread crime is suspected, to the FBI or Secret Service; and if mail is involved, the US Postal Inspector. KSI/KAI may also report it to KSI/KAI's FINRA coordinator; the SEC; state regulatory authorities; and KSI/KAI's clearing firms.
6. Notification: Should KSI/KAI determine personally identifiable information has been accessed that results in a foreseeable risk for identity theft, KSI/KAI shall prepare any specific notice to customers or other parties required to be notified.
7. Assist the customer: KSI/KAI will work with customers to minimize the impact of identity theft by taking the following actions, as applicable:
 - offering to change the password, security codes or other ways to access the threatened account
 - offering to change the account
 - offering to reopen the account with a new account number
 - instructing the customer to go to the FTC Identity Theft Web Site to learn what steps to take to recover from identity theft, including filing a complaint using its online complaint form, calling the FTC's identity Theft Hotline 1-877-ID-THEFT (438-4338), TTY 1-866-653-4261, or writing to the Identity Theft Clearinghouse, FTC, 6000 Pennsylvania Avenue NW, Washington, D. C. 20580.

Customer Notice

Prior to or at the opening of an account, notice shall be provided to customers informing them of KSI/KAI's intention to verify their identity. Notice shall be provided via the New Account Application and Disclosure Statement, or the Client Profile Form, or through any alternative account documentation utilized by KSI/KAI.

Clearing Firm and Other Service Providers

KSI/KAI clears through two clearing firms, and submits transactions to a number of direct business non-brokerage carriers in connection with the firm's covered accounts. Each of these firms are subject to the same identity protection requirements, and KSI/KAI believes that they are meeting their obligations. The clearing firm contacts are: National Financial Services, LLC. Attn: Fraud Risk Team, 100 Crosby Parkway Mail zone KCID, Covington, KY, 41015-0031, Helpline (617) 392-8284, FAMMTeam@fmr.com; Pershing, LLC, a BNY Mellon company, Attn: Brian Terry, Account Manager 300 Colonial Center Parkway Suite 400, FL 32746, Phone (321) 249-4092, brian.terry@pershing.com.

Internal Compliance Reporting:

The Executive Vice President and the Director of IT are responsible for developing, implementing and administering the firm's ITPP. They will report at least annually to Brian J. Kovack, CEO, the designated member of senior management on compliance with the FTC's Red Flags Rule. The report will address the effectiveness of the firm's ITPP in addressing the risk of identity theft in connection with the firm's accounts and service provider arrangements; significant incidents involving identity theft and management's response to the incidents; and recommendations for material changes to our ITPP.

Notwithstanding the above, each associated person shares in the successful administration of KSI/KAI's ITPP. Everyone within the KSI/KAI organization must be diligent in detecting potential identity theft, and in reporting any suspicious behavior immediately to the Chief Compliance Officer or the Director of IT.

Updates and Annual Review:

KSI/KAI will update this plan whenever KSI/KAI has a material change in operations, structure, business or location or to those of KSI/KAI's clearing firms, or if KSI/KAI experiences material identity theft from one or more accounts. KSI/KAI will also follow new ways that identities can be compromised and evaluate the risk that they pose to KSI/KAI. In addition, this Plan will be reviewed no less than annually, and revised if needed.

Supervision:

The Executive Vice President and the Director of IT are responsible for administering and maintaining this Program.

Section 46

Insider Trading

The Insider Trading Act is designed to detect and prevent the misuse of material non-public information in violation of the Securities and Exchange Act of 1934. The Act requires that Broker/Dealers establish, maintain and enforce written policies that are reasonably designed to prevent the misuse of material non-public information. All employees and associated persons are subject to the firm's insider trading policies.

Generally, the definition of insider trading includes:

- Buying or selling securities on the basis of material non-public information. This includes both the employee/associated person's account, firm accounts or client accounts. Employees and associated persons should consult with the Chief Compliance Officer if they are unclear if information is material or non-public.
- Disclosing insider information to inappropriate personnel, whether for consideration or not (i.e. tipping). Insider information must be disseminated on a "need to know" basis only to appropriate personnel, as determined by the Chief Compliance Officer.
- Assisting anyone transacting business on insider information through a third party.

KAI/KSI employees and associated persons must be diligent in their efforts to insure that violations of the firm's Insider Trading policies do not inadvertently or intentionally occur. Accordingly, all employees and associated persons are responsible for:

- Ensuring that no trading occurs for their accounts, or for any account for which they have a beneficial interest, or in securities for which they have insider information.
- Not disclosing insider information obtained from any source whatsoever to inappropriate persons.
- Consulting the Chief Compliance Officer when questions arise regarding insider trading or when potential violations are suspected.
- Ensuring that the company receives copies of confirmations and statements for accounts held at outside brokerage firms for both their accounts and those of immediate family members (see "KAI Investment Advisor Representative and Employee Accounts").
- Being aware of and monitoring any clients who are shareholders, directors and/or senior officers of public companies. Any unusual activity, including surrounding the purchase or sale of restricted stock (please refer to "Rule 144 Sales - Transactions of Affiliate, Insider and Restricted Stock") must be brought to the attention of the Chief Compliance Officer.

Supervision

The Chief Compliance Officer is responsible for overseeing compliance of the Insider Trading Policy.

Section 47

ADV Review and Updates

Rule 204.1 of the Investment Advisor Act of 1940 requires that all Registered Investment Advisor firms amend the Form ADV at least annually within 90 days of the end of the fiscal year and more frequently as required by the instructions to Form ADV. The instructions to Form ADV require prompt amendments to the Form ADV if information on Items 1, 3, 9 (except 9.A.(2), 9.B.(2), 9.E., and 9.F.), or 11 of Part IA have changed. This includes such information as contact information, the Chief Compliance Officer, other offices, website address, location of books and records, changes to custodial practices, and disclosure information. The Form ADV must be amended promptly if information in Items 4, 8, or 10 become materially inaccurate. This includes succeeding to the business of a registered investment advisor, changes to the participation or interest in client transactions, or changes to control persons.

If information in the KAI Firm Brochure (ADV Part II) become materially inaccurate, prompt amendments must be filed electronically through IARD. Brochure supplements must be promptly amended if any information becomes materially inaccurate.

Supervision

Supervision of updating the Form ADV and performing the annual review will be overseen by the Chief Compliance Officer.

Section 48

Financial Policies and Procedures

The KAI/KSI Treasurer is responsible for KAI's compliance with applicable financial rules and regulations, including:

- Performing all standard financial record keeping needed to update and maintain accurate financial records.
- Preparation and filing of all reports that may be required.
- Retaining all the financial books and records required under SEC Rule 17a-4.

Supervision

The Senior Vice President/Treasurer is responsible for financial policies and procedures.

Section 49

Soft Dollar Arrangements

Soft dollar arrangements generally arise when a Registered Investment Advisor (RIA) receives research or brokerage products or services from a Broker/Dealer (B/D) in exchange for placing securities transactions with that B/D. In order to receive the products or services, the RIA may pay more than the lowest possible commission rate. Because the research and brokerage services are provided in exchange for client commission dollars (i.e. soft dollars), and because the commissions are viewed as client assets, an RIA could be viewed as breaching its fiduciary duty to clients by using client assets for its own benefit.

KAI does not utilize any research or other services on a soft dollar basis, and our policy is disclosed in the KAI Firm Brochure - ADV Part II.

Supervision

The Executive Vice President is responsible for overseeing the soft dollar arrangements of the firm.

Section 50

Order Aggregation and Allocation

Order aggregation is the process of adding together or “bunching” orders to purchase and sell the same security as one large order. Aggregated orders may include proprietary or customer accounts or both. Registered Investment Advisors (RIA) frequently aggregate orders for administrative convenience and to achieve lower execution costs typically associated with larger orders.

A partial fill occurs when an order to purchase or sell securities exceeds the amount of securities ultimately purchased or sold. Consequently, when a partial fill occurs, KAI must allocate the purchased securities or sale proceeds among the participating accounts in a manner different from the original order.

A split fill occurs when an order for securities is placed but cannot be filled at once. When a split fill occurs, an order may ultimately be filled with securities at different prices and different brokerage fees, typically as a result of executing more than one transaction.

KAI must perform an order allocation after placing an order on an aggregated or “bunched” basis. In a partial fill situation the allocation will occur at different amounts from the original allocation as contemplated prior to the trade being placed. Partial fills are allocated using a *pro rata* method. KAI will allocate securities proportionally according to the originally planned allocation.

KAI must act in the utmost good faith when dealing with its clients and must provide full and fair disclosure of all material facts. Issues could arise where an RIA aggregates orders on behalf of registered investment company clients and other advisory clients, including proprietary accounts, or other clients that may be affiliated persons of the registered investment company, or affiliated persons of such persons. Proprietary accounts would include hedge funds or private investment companies in which the advisor or any of its officers, directors or employees have an economic interest.

KAI does not aggregate client orders with orders for proprietary accounts or registered investment company clients, if the firm had such clients. The practice of aggregating orders is fully disclosed in the KAI Firm Brochure - ADV II. No advisory account, including a proprietary account, is favored over any other account. Also, each client who participates in an aggregated order does so at the average share price with all other transaction costs shared on a *pro rata* basis.

Supervision

The Vice President of Trading, under the supervision of the Executive Vice President, is responsible for overseeing order aggregation and order allocation.

Section 51

Outsourcing

KAI/KSI I may outsource some functions while still retaining responsibility for the outsourced function, in accordance with FINRA Notice to Members 05-48.

Before initiating any outsourcing arrangement, and periodically thereafter, an appraisal must be made as to whether the activities being considered should be outsourced. A variety of factors should be evaluated, including:

- The impact to the firm should the third party provider fail to perform, either partially or completely.
- The firm's ability, in light of the outsourcing arrangement, to provide compliant services to clients.
- How the outsourcing may impact the firm's current and continuing compliance with applicable rules and regulations, again in light of the outsourcing arrangement.
- The outsourced company's policies regarding safeguarding customer information.

A due diligence review must be conducted both initially and periodically thereafter to determine whether the provider has the capability to perform the outsourced activity. Factors to consider may be the extent of the provider's experience, the depth of their personnel pool, and references or reputation.

Agreements entered into with the provider must be carefully reviewed, both at inception and periodically thereafter. The evaluation must consider the services being provided and whether or not those services should be continued to be provided.

Finally, it must be considered as to whether or not the activities contemplated for outsourcing can in fact be outsourced, such as supervisory and compliance activities that are contracted away from the firm's direct control. Support functions may be contracted away, but not the direct supervision. Determinations of which activities fall within or outside of certain supervision and compliance parameters will be made on a case-by-case basis.

Supervision

The Chief Executive Officer or the Director of IT will evaluate, following the guidelines set forth herein, third party service arrangements.

Section 52

Directed Brokerage

KAI currently uses National Financial Services, Pershing, Fidelity Institutional Wealth Service and TD Ameritrade as its custodians. In considering which independent qualified custodian will be the best fit for KAI's business model, KAI evaluates a number of factors, including, but not limited to:

- Financial strength
- Reputation
- Reporting capabilities
- Execution capabilities
- Pricing, and
- Types and quality of research

KAI recommends that clients establish an account with a brokerage firm with which KAI has an existing relationship. Such relationships may include benefits provided to our firm, including research, market information, and administrative services that help KAI manage client accounts. KAI believes that recommended Broker/Dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. KAI also considers the quality of the brokerage services provided by the recommended Broker/Dealers, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to clients and KAI.

Clients are free to select any broker. However, the client may pay a higher or lower commission and the firm may not be able to aggregate orders to reduce cost.

KAI does not engage in principal transactions or agency cross transactions.

Orders are treated impartially and entered on a first-in, first-out basis, and trades are allocated fairly. Trades may be submitted in a block, and each client will be charged or credited with the average price per unit.

Trade errors are corrected to place the client in the same position he would have held if not for the error.

Supervision:

The Vice President of Trading, under the supervision of the Executive Vice President is responsible for overseeing brokerage transactions.

Section 53

Management Fee Billing

All client assets are held with a qualified custodian, and each custodian provides statements to the clients no less than quarterly.

Client holdings are valued by an independent 3rd party. The values provided by the independent 3rd party are reviewed quarterly against the values provided by the clearing firm. Management fees are billed quarterly in advance based on the values of the client holdings as of the last business day of the previous quarter. For partial quarter periods, the management fees are generally billed on a *pro rata* basis depending on the size of the deposit or withdrawal.

Client transactions and positions are automatically reconciled daily comparing the independent 3rd party values against the custodial values. Discrepancies are reviewed and corrected daily.

Supervision:

The Executive Vice President is responsible for overseeing the valuation of client holdings and assessing management fees.

Section 54

Solicitor Arrangements

In accordance with rule 206(4)-3 of the Investment Advisers Act of 1940, KAI and its Advisor Representatives will not pay cash fees directly or indirectly to a solicitor unless the following criteria is met:

KAI will not pay cash fees directly or indirectly to a solicitor who is barred or suspended from association with a Registered Investment Advisor (RIA) or is subject to censure, denial, or suspension of registration with an RIA. Additionally any cash fees paid to a solicitor must be paid pursuant to the Professional Partners Referral Agreement of which KAI is a party.

This written agreement describes the solicitation activities to be engaged in by the solicitor on KAI's behalf and the compensation they will receive. The agreement requires the solicitor to perform their duties in a manner consistent with the instructions of KAI and all applicable provisions and rules of federal and state securities laws. Additionally, the solicitor is required to provide the client with a copy of the KAI Form Brochure - ADV Part II as well as having the client sign the KAI Client Disclosure Statement.

In addition, the solicitor will be licensed, if required by the jurisdiction.

Supervision

The Vice President of Advisory and Account Services, under the supervision of the Executive Vice President, is responsible for overseeing the solicitor arrangements of the firm.

Section 55

Custody

“Custody” means holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them. Custody includes:

1. Possession of client funds or securities, (but not of checks drawn by clients and made payable to third parties,) unless received inadvertently and returned to the sender promptly but in any case within three business days of receiving them;
2. Any arrangement (including a general power of attorney) under which the investment advisor is authorized or permitted to withdraw client funds or securities maintained with a custodian upon instruction to the custodian; and
3. Any capacity (such as general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle, or trustee of a trust) that gives the investment advisor or a supervised person legal ownership of or access to client funds or securities.

There are other instances where an Investment Advisor Representative could have custody. For example, an Investment Advisor Representative with power of attorney to sign checks on a client's behalf, to withdraw funds or securities from a client's account, or to dispose of client funds or securities for any purpose other than authorized trading, has access to the client's assets.

Similarly, an Investment Advisor Representative authorized to deduct advisory fees or other expenses directly from a client's account has access to, and therefore has custody of, the client funds and securities in that account. While not in possession of client assets, the Investment Advisor Representative has the authority to obtain possession. To allow KAI to debit client accounts for advisory fees without having custody, KAI adheres to the provisions of Rule 206(4)-2.

KOVACK ADVISORS, INC. ADVERTISING MANUAL



The Kovack Advisors Advertising Manual may be used in conjunction with the Kovack Securities Retail Communications Manual. Where one version is more restrictive, and the IAR is also registered as an RR, the more restrictive provisions will apply.

JANUARY 2025

Advertising

What is it?

Advertising is a communication directed to more than one person that offers:

- Any analysis, report or publication concerning securities
- Any graph, chart, formula or device to be used in making a determination as when or which security to buy or sell
- Any investment advisory service with regard to securities

Correspondence is a written communication to one person.

All communications must be:

- Based on the principles of fair dealing and good faith
- Fair and balanced
- Provide a sound basis for evaluating the facts with regard to any particular security, industry or service

and may not:

- Omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communication to be misleading
- Make any false, exaggerated, unwarranted or misleading statement or claim
- Produce any communication that the firm or Registered Representative knows contains any untrue statement of a material fact or is otherwise false or misleading

These principles are uniformly applied across all product lines, and are not restated when addressing standards for specific products. They additionally apply to general financial information.

Compliant advertising is a complex area of securities regulation, and KAI recommends that IARs use compliant pieces such as those provided by national vendors such as Emerald, Forefield, FMG Suite and the Marketing Library. In addition, many product issuers also provide sales pieces. Items that have been filed with FINRA are often also compliant with SEC regulations. Regardless as to source, all such retail communications must be filed by Investment Advisor Representatives with the Advertising Department. However, when utilizing material that has already been filed with FINRA, if required, or prepared by professional securities marketing agencies, the approval process will occur much more quickly.

Prior Approval of Advertising

Each advertising piece must be approved in writing by the Advertising Department PRIOR to use. This includes sales solicitation material provided by product sponsors, even when the sponsor claims that the material has been approved by KSI, FINRA or the SEC, and any reprinting or modification of previously approved material.

Submission and Approval Procedure

- Investment Advisor Representatives may submit advertising to the Advertising Department by using My Compliance Office, emailing to advertising@kovacksecurities.com, faxing to KSI, or even mailing in the piece for which approval is needed.
- Allow ten (10) business days from time of receipt for review and response by the Advertising Department.
- If a submission is not approved, the required changes and/or additions will be noted and returned. The submission must then be corrected and resubmitted for approval. The piece cannot be used until approved. Approval is evidenced by the dated signature of the reviewing Advertising Principal.

After approval, the Investment Advisor Representative will maintain, for a period of at least three (3) years:

- All advertisements with corresponding run dates
- The evidence of principal review

While correspondence must conform with the requirements and principles shown above, individual correspondence is not considered to be advertising and therefore will not be subject to the pre-use filing and approval requirements. Instead, paper correspondence is submitted to Compliance at the close of each calendar quarter. Emails are subject to a daily lexicon-based review, also by Compliance.

Designations and Credentials

All communications and representations made by Investment Advisor Representatives must be accurate, and cannot be exaggerated, false or misleading. This bars the referencing of non-existent, self-conferred degrees or designations in a misleading manner, or referencing legitimate degrees or designations in a misleading manner. The same applies to any form of credentials. This includes, but is not limited to, claiming authorship of a ghost-written book.

The use of any professional designation must be approved by the Advertising Department before use. Shown below is the current list of approved designations that may be used in communications with the public. While these are approved designations, nonetheless each Registered Representative must obtain approval for the use of any designation.

- Certified Financial Planner (CFP)
- Accredited Estate Planner (AEP)
- Certified Public Accountant (CPA)
- Fellow, Life Management Institute (FLMI)
- Life Underwriter Training Council Fellow (LUTCF)
- Master of Science in Financial Services (MSFS)
- Master of Business Administration (MBA) or Business Science (MBS)
- Juris Doctor (JD)
- Registered Health Underwriter (RHU)
- Chartered Financial Consultant (ChFC)
- Personal Financial Specialist (PFS)
- Chartered Financial Analyst (CFA)
- Chartered Investment Counselor (CIC)
- Chartered Retirement Planning Counselor (CRPC)
- Certified Investment Management Analyst (CIMA)
- Accredited Investment Fiduciary Analyst (AIFA)
- Certified Life Underwriter (CLU)
- Retirement Income Certified Professional (RICP)
- Certified Divorce Financial Analyst (CDFA)
- Nonqualified Plan Advisor (NQPA)
- Certified Retirement Counselor (CRC)

Investment Advisor Representatives wishing to use other designations must submit their request to the Advertising Department for review and approval prior to use. As not all designations are approved, it is recommended that Registered Representatives seek approval from the Advertising Department prior to beginning a program that, if successfully completed, would confer a designation.

Titles

Investment Advisor Representatives licensed with KAI only, and are not using a DBA, may use any of the following titles:

- Financial Advisor
- Account Executive
- Financial Consultant
- Financial Professional
- Investment Broker
- Investment Consultant
- Investment Professional
- Investment Advisor Representative

Investment Advisor Representatives who are insurance licensed may use:

- Licensed Insurance Agent

Investment Advisor Representatives using a DBA:

- Investment Advisor Representatives that have their own DBA may use the titles above and/or their DBA title, such as "John Smith, President, Smith Financial Services" or "John Smith, Managing Member, Smith Financial Services LLC".

Investment Advisor Representatives should never state or imply that they are registered with the SEC: registrations are with Kovack Advisors, Inc.

Special care will be taken by the Compliance Department in allowing the use of Senior Designations. It has been found that many titles conferred in this area of practice do not require rigorous qualification standards, and thus bestow no benefits to seniors who are relying on the expertise allegedly vested by such a designation. In allowing the use of a Senior Designation, KAI will only permit designations conferred by those organizations that have a rigorous curriculum, continuing education requirements, a method for determining the Investment Advisor Representative's status regarding the designation, and/or a public disciplinary process.

Standard Disclosure for Business Cards, Stationery, and Fax Cover Sheets

Stationery, business cards and fax cover sheets are retail communications, and must be submitted to the Compliance Department prior to use. Required disclosures and branch office address must be shown (your "Standard Disclosure"), using the format suitable for your business model. ***KSI and/or KAI business cards can be ordered through KSI's website by following these clicks:***

KSI InTouch 4.0 > Dashboard tab > Quick Links > KSI Stationery

Shown below is the format and Standard Disclosure that must be used by KSI Registered Representatives:

Registered with KAI only, and not using a DBA:

Investment Advisor Representative Name offers advisory services through Kovack Advisors, Inc., an SEC Registered Investment Advisor. 6451 N. Federal Hwy., Ste 1201, Ft. Lauderdale, FL 33308.

Registered with KAI only, and using a DBA:

Investment Advisor Representative Name offers advisory services through Kovack Advisors, Inc., an SEC Registered Investment Advisor. 6451 N. Federal Hwy., Ste 1201, Ft. Lauderdale, FL 33308 (954) 782-4771. **DBA Name** is not affiliated with Kovack Advisors, Inc.

<p>Stellar Financial, Inc.</p> <p><i>Mary Sue Orion</i></p> <p>1258 N. Federal Pkwy. San Francisco, CA 94129 Phone: (415) 555-6985 Fax: (415) 555-6741</p> <p><small>Mary Sue Orion offers advisory services through Kovack Advisors, Inc. an SEC Registered Investment Advisor . 6451 N. Federal Highway, Suite 1201, Ft. Lauderdale, FL 33308 (954) 782-4771. Stellar Financial, Inc. is not affiliated with Kovack Advisors, Inc.</small></p>

Registered with KSI and KAI and not using a DBA:

Registered Representative/Investment Advisor Name is registered with and securities are offered through Kovack Securities, Inc. Member FINRA/SIPC. **OSJ address and phone number.** Advisory services offered through Kovack Advisors, Inc., an SEC Registered Investment Advisor. **Please note:** OSJ Supervisors must show KSI's main address, and not the OSJ address.

Registered with KSI and KAI, and using a DBA:

Registered Representative/Investment Advisor Name is registered with and offers securities through Kovack Securities, Inc. Member FINRA/SIPC. **List OSJ address and phone number.** Advisory services offered through Kovack Advisors, Inc. an SEC Registered Investment Advisor. **DBA Name** is not affiliated with Kovack Securities, Inc. or Kovack Advisors, Inc.

Please note: OSJ supervisors must show KSI's main address, and not the OSJ address.

Black Marlin Financial Services, Inc.	123 Main Street Jacksonville, FL 32073
John Jacob <i>Financial Advisor</i>	p: 904.555.2658 f: 904.555.3878 John@blackmarlin.com
<small>John Jacob is registered with and offers securities through Kovack Securities, Inc. Member FINRA/SIPC. 6451 N. Federal Highway, Suite 1201, Ft. Lauderdale, FL 33308 (954) 782-4771. Advisory Services offered through Kovack Advisors, Inc., an SEC Registered Investment Advisor. Black Marlin Financial Services, Inc. is not affiliated with Kovack Securities, Inc. or Kovack Advisors, Inc.</small>	

EMAIL DISCLOSURES

Registered with KAI only, and not using a DBA:

The information contained in this report or information provided does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered reliable, but we do not guarantee that the foregoing material is accurate or complete. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation of an offer to buy or sell any security referred herein. Past performance may not be indicative of future result. No buy or sell orders may be given using email; please call the telephone number shown above to contact your Investment Advisor Representative. **Investment Advisor Representative Name** offers advisory services through Kovack Advisors, Inc., an SEC Registered Investment Advisor.

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Branch Address

The Branch Address must appear on the document; the placement of the address will differ with the document type.

DBA Disclosures

As shown above, **DBA Name** is not affiliated with Kovack Securities, Inc./Kovack Advisors, Inc. (as applicable) must be shown.

DBA names cannot use the word "Investments", "Security", "Securities", or any other word that might imply that they are a broker dealer.

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The Investment Advisor Representative must mention Kovack Advisors, and may not use the abbreviation "KAI" in its place. In addition, the message must indicate that no orders are to be left on their voicemail system as they will not be executed. For example, the following voicemail may be used:

"You have reached the office of John Astor, Financial Advisor with Black Marlin Financial Services, Inc., with advisory services offered through Kovack Advisors. I'm not available at this time, but will return your call at my earliest opportunity. Please do not leave any securities orders on your voicemail, as they will not be executed."

This voicemail message should be placed on all telephone lines used to communicate with clients: for example, your office line and your cell phone, if clients call you on your cell.

Office Signage

Office signage will vary, based on the office configuration and applicable building and municipal policies on signs. Regardless, the following guidelines must be adhered to:







- **Inside the Office-** Kovack Advisors, Inc. **MUST** be displayed inside the office. The signs provided in the Branch Office Kit must be used.








- **On the Building Directory-** (if applicable) For alphabetical listings or floor listings, the DBA name must be listed. If not using a DBA, then the Investment Advisor Representative's name must be shown. Kovack Advisors, Inc. can also be shown, but this is in addition to the DBA or RR name.
- **Executive Suites** – Investment Advisor Representatives must display the Kovack Securities/Advisor sign in some manner so as to be visible to clients. For example, the signs could be placed into clear plastic framing, and could be placed on a side table during a client meeting.

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LinkedIn, Twitter, Facebook, Global Relay text/WhatsApp and YouTube are currently the only approved forms of social media, due to the availability of archiving. The charges are as follows:

	LinkedIn Personal Professional Profile:	no charge
	LinkedIn Business (DBA) Profile:	\$20.00 per month
	Twitter:	no charge
	Facebook:	\$20.00 per month
	YouTube:	\$50.00 per month
	Global Relay Text/WhatsApp:	\$35.00 per month

<i>Media</i>	<i>Business</i>	<i>Personal (will not require KAI review)</i>
LinkedIn 	Professional profile Pre-approval of profile Display required disclosures under the "Current Experience" or "Summary" area showing your securities business Pre-approval of all 3rd party links No recommendations; must hide or delete any received. Endorsements allowed. No blogs; no securities recommendations Use only DBA or IAR name; no use of the Kovack name in profile registration Business-only discussions, posts, pictures Must link to website, if IAR has one	Not applicable
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Media	Business	Personal (will not require KAI review)
Facebook (Company Page, using your DBA, or business- use only personal profile) 	Professional page Pre-approval of page Display required disclosures in the "About" field, under the listing of your current securities business Pre-approval of all 3rd party links Likes should be turned off, except for "liking" the page itself No blogs; no securities recommendations Use only DBA or IAR name when registering page Business-only discussions, posts and pictures Private messaging cannot be used; IARs must attest to this Must link to IAR's website, if IAR has one	No references or links to securities business: do not show title, place of employment, links to business web site or anything that references your securities business No links to securities business sites No business discussions; direct any business correspondence initiated by someone else to registered email address
YouTube 	Business content only. The first or last slide of the video must contain IAR disclosures. Videos will require the video disclosures shown in "Videos". Submit to KAI prior to posting for approval. RRs disclosure must be displayed under the "About" section of the YouTube page.	Personal only. No mention of employment, DBA, investments, etc.
Global Relay for Texting and WhatsApp 	Business Use-Only. Rep must select the option that works best for them when establishing a number for texting. Please see options below. Setup using your office telephone number. It should be an office landline/VOIP number. Provide landline number. Setup can be done by assigning a virtual number. If selecting this option please provide your preferred area code.	Not recommended for personal use.

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Investment Advisor Representative Name: _____


KSI/KAI Email Address: _____


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_____  LinkedIn Business (DBA) Profile; submit Profile to klopez@kfn.com) prior to posting. I understand the cost is \$20.00 per month.

_____  Twitter account. My twitter handle is: _____.

_____  Business Facebook Page (submit Page to klopez@kfn.com)). I understand the cost is \$20.00 per month; the Page must be submitted prior to posting.

_____  YouTube. My Channel (s) URL is: _____.
I understand the cost is \$50.00 per month; videos must be submitted to klopez@kfn.com) prior to use/posting.

_____  Global Relay My landline/VOIP number is: _____.
Or you can select to have a virtual number assign; submit the initial information to klopez@kfn.com prior to initiating a business text. I understand the cost is \$35.00 per month.

I have reviewed and am familiar with the KSI/KAI Social Media Policy, and agree to abide by the Policy. I understand that as with any other client communications, all my communications must be fair and balanced, and in compliance with FINRA communications rules.

Registered Representative/Investment Advisor Representative Signature

Registered Representative/Investment Advisor Representative Name

Date: _____

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CRS Link

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MarketingLibrary Standard

What is MarketingLibrary? An extensive online library containing thousands of high-impact, professionally pre-written marketing messages and new technology that integrates seamlessly with compliance offices for pre-review of content. New content is added every week. Save time and significantly increase the impact of your client communication and marketing efforts. Search the library for a pre-authored article, newsletter or client letter and (if pre-approved) send it to your contacts right away.

[Learn More](#)



MarketingPRO

A complete suite of services including automated direct mail campaigns and a built-in CRM. Enjoy all the content and features of MarketingLibrary, plus full-color greeting cards, postcards, newsletter postcards and the ability to utilize your own handwriting font and signatures. This revolutionary system can send both email and direct mail for you - on the fly or as part of automated campaigns - making relationship-building faster, simpler and more effective.

[Learn More](#)



Social Media Content

The financial industry is adapting. With websites like LinkedIn and Facebook changing the way we communicate, more and more Broker/Dealers across the country are now allowing Representatives to make use of compliant Social Media content. Along with our popular economic updates, financial articles, invitations, letters and more, we now provide pre-written, 140-character posts that can be pre-reviewed by compliance - directly through the system. The result is fast, frequent communication with your followers.



Book Peter Montoya to Speak

One of the most sought-after speakers in the industry on marketing and branding, Peter helps professionals work toward realizing greater influence and explosive income growth. [Learn More](#)

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4. FMG Suite at www.fmgsuite.com



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The Inbound Marketing Solution for Financial Advisors

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FMG Suite isn't just a website; it's a total inbound marketing solution that automatically generates leads each month using our five integrated tools.



At the heart of our system is our award-winning content, which features over 400 videos, articles, and calculators. Each tool leverages content to drive traffic back to your website where prospects are converted.

5. Other libraries may be approved on a case-by-case basis.

Using Previously Published Pieces

The KSI/KAI Advertising Department, when reviewing a published article that a Investment Advisor Representative has submitted for re-distribution, will look for the following:

1. Is the article from a reputable source? This includes publications with an established national distribution, such as the Wall Street Journal and credible providers of information, such as Morningstar and S & P IQ. Prohibited sources include, for example, Seeking Alpha and Wikipedia, unless the information in the article can be independently verified.
2. Does the article remain current? The date of original publication is not the sole determinant, since the relevancy and accuracy of content can change due to exterior events.
2. Is reprint distribution allowed? Generally, subscribers are allowed to use reprints. Non-subscriber reprint use is unique to each publication: some allow use, and some do not.
3. If posting via a link, is the user allowed to share via linking?

Using Product-Sponsor Provided Pieces

Many product sponsors have developed effective marketing pieces for retail use. As with all other retail communications, the piece must be submitted to the Advertising Department for prior-use approval. In most cases, the "FINRA letter" will be needed; this can easily and readily be obtained from your wholesaler or the issuer itself. In addition, for some alternative investments, AI Insight posts the FINRA letter for the sponsor-provided marketing pieces that require the letter. In addition to the FINRA letter, KAI will review for compliance with SEC advertising rules and regulations.

Institutional-Use Only Communications

Institutional-use only communications cannot be provided to retail investors. In using institutional-only use communications, Investment Advisor Representatives must have the strong belief that retail investors will not have access to the institutional-only piece.

Seminars and Other Public Appearances

Seminars and sales meetings with prospective and existing clients are an important and effective sales technique used by many Investment Advisor Representatives. As with all other forms of advertising, the material presented must be based on the principles of fair dealing and good faith, and should provide a sound basis for evaluating any particular security or investment strategy.

A seminar can be given by using third party, pre-approved seminars, or Investment Advisor Representatives can create their own seminar material. Both must be filed ***prior to use*** with the Advertising Department.

When Investment Advisor Representatives create their own seminars, all items used must be filed with the Advertising Department. These can include, for example:

- Invitations, flyers and announcements
- Detailed script
- Power point presentations, overheads and slides
- Handouts
- Videos

All seminar materials must conform with retail communications regulations, each as a stand-alone piece, even though slides are generally progressive in nature with each slide building on the prior one.

Client Appreciation Events

Invitations to client appreciation events, whether a cocktail reception or a dinner, must have prior approval from the Advertising Department. If materials are presented at the event, these too must have prior-use approval.

Unscripted Public Appearances

When making a public appearance that does not involve a script, such as serving on a panel of financial services professionals, the Advertising Department must be given prior notification. All discussions must comply with retail communications principles, as summarized on Page One of this Manual.

Investment Advisor Representatives are generally prohibited from providing interviews to news organizations.

Trade Shows

Attendance at trade shows generally involves having a booth or table, and having various handouts available. These handouts are sponsor-issued pieces or article reprints. Prior to attending a trade show, Investment Advisor Representatives must submit their proposed attendance to the Advertising Department for review and approval. All materials to be distributed must accompany the submission.

Radio and Television

Permission for all radio and television programs must be submitted to the Advertising Department for approval prior to use. The information filed should contain a brief summary of the program's topic, and the date, time and channel/station broadcasting the program. If an Investment Advisor Representative appears on a live program, the program must be recorded and submitted to the Advertising Department for post review.

All broadcasts must, at least once during the program, include the Investment Advisor Representative's Standard Disclosure. This is usually done at the beginning or end of the program.

If the discussion involves investments, the following disclosures must be made:

- "The opinions and recommendations contained in this broadcast are those of John Doe, and not of Kovack Advisors, Inc."
- "Past performance is not a guarantee of future performance. Upon liquidation, your investment may be worth more or less than its original cost."
- "The investments discussed may be suitable for only some investors."

These can be made at the beginning or end of the program, or can be sprinkled throughout the program.

All discussions must:

- Be fair and balanced, and equally show both risk and reward.
- Must contain no material omission of facts. A discussion of a municipal bond, for example, would be lacking material information if the bond was called "tax free", and yet was subject to state tax. The bond should be portrayed as "Federal tax-free".
- If using sources, the source must be cited, rather than creating the appearance of authorship.
- Use language understood by the intended audience.
- Complex products cannot be discussed.

Mutual funds, REITs, BDCs, DPPs, variable annuities, ETFs, UITs and closed-end funds discussions must adhere to the following:

- Discussions must be general in nature, and without mention of specific products. Specific products can be mentioned only if the Registered Representative has submitted to the Advertising Department, prior to broadcast, a storyboard or script. These are generally provided by the product issuer's marketing department, and will have the "FINRA letter".
- Specific performance figures **cannot** be used, nor can forward-looking performance speculations.

Stocks and bonds can be discussed in a limited manner, following SEC and FINRA guidelines on providing fair, balanced, and material information. For example, if discussing a high yield bond, the bond's rating must be mentioned, along with an explanation of the rating. For any stock or bond mentioned, the Investment Advisor Representative must have a reasonable basis for making the recommendation; the research used to arrive at the recommendation **must** be retained to substantiate the recommendation.

Any discussion of a municipal bond must provide the lowest yield.

Videos

Posting videos is another form of advertising; currently, the most common way of creating and posting videos is with YouTube. Videos can be created by the Investment Advisor Representative, or could be a filming of a television broadcast, or could be from a library of pre-approved videos. If the video to be posted is of a television broadcast or other live event, the broadcast or event must also follow the procedure in "Radio and Television" or "Seminars and Other Public Events", as applicable.

All videos must be submitted to the Advertising Department for approval prior to use. The Investment Advisor Representative's Standard Disclosure must be shown. This is generally done as a final slide.

If the discussion involves investments, the following disclosures must be made:

- "The opinions and recommendations contained in this presentation are those of John Doe, and not of Kovack Advisors, Inc."
- "Past performance is not a guarantee of future performance. Upon liquidation, your investment may be worth more or less than its original cost."
- "The investments discussed may be suitable for only some investors."

These can be shown on a single slide, or can be sprinkled into the presentation.

All discussions must:

- Be fair and balanced, and equally show both risk and reward.
- Must contain no material omission of facts. A discussion of a municipal bond, for example, would be lacking material information if the bond was called "tax free", and yet was subject to state tax. The bond should be portrayed as "Federal tax-free".
- If using sources, the source must be cited, rather than creating the appearance of authorship.
- Use language understood by the intended audience.
- Complex products cannot be discussed.

Mutual funds, REITs, BDCs, DPPs, variable annuities, ETFs, UITs and closed-end funds discussions must adhere to the following:

- Discussions must be general in nature, and without mention of specific products. Specific products can be mentioned only if the Registered Representative has submitted to the Advertising Department, prior to broadcast, a storyboard or script. These are generally provided by the product issuer's marketing department, and will have the "FINRA letter".
- Specific performance figures **cannot** be used.

Stocks and bonds can be discussed in a limited manner, following SEC and FINRA guidelines on providing fair, balanced, and material information. For example, if discussing a high yield bond, the bond's rating must be mentioned, along with an explanation of the rating. For any stock or bond mentioned, the Registered Representative must have a reasonable basis for making the recommendation; the research used to arrive at the recommendation **must** be retained to substantiate the recommendation.

Any discussion of a municipal bond must provide the lowest yield.

Telemarketing

Telemarketing scripts are considered advertising and must be approved prior to use. At a minimum, they must include:

- the name of the Investment Advisor Representative
- Kovack Advisors, Inc.
- the address and telephone number of the Investment Advisor Representative
- the fact that the purpose of the call is to solicit interest in a security, a word which must be used, if that is the purpose of the call.

These disclosures should appear at the beginning or the introductory portion of the script, prior to any detailed discussion of the security.

Automatic dialers may not be used by Investment Advisor Representatives.

Federal communications law also requires solicitations to be restricted to the hours between 8:00 a.m. and 9:00 p.m. in the time zone in which the call is to be received. Investment Advisor Representatives must not make any telephone calls to households appearing on the Do-Not-Call Registry. Further, if it is requested of the Investment Advisor Representative to not place telephone calls to an individual, their name must be added to the Do-Not-Call list. This request must be honored for five (5) years. It is the responsibility of each Investment Advisor Representative engaging in "cold-calling" to gain a thorough knowledge of the cold-calling and do-not-call policies of each state that the Investment Advisor Representative is calling into. The Investment Advisor Representative is also responsible for maintaining all required records. Links that provide information on each state's cold calling policies are available on the KSI web site by following the clicks shown below:

KSI InTouch 4.0 > Business Support Tab > Business Development > Transition Suite > Getting Started> Compliance > Do Not Call List

Telephone Book and Other Directory Listings

Telephone book listings in the yellow pages, and other directory listings, are considered retail communications and must be filed with the Advertising Department for approval prior to use. The listing must be under Kovack Advisors, Inc. or your DBA name. If you are also registered with KSI, the listing may be under Kovack Securities, Inc. and may be placed in any or all of the following sections:

1. Investments
2. Securities
3. Mutual Funds
4. Stock and Bond Brokers (for Registered Representatives holding the Series 7 or Series 62)
5. Insurance Consultants (for insurance-qualified Investment Advisor Representatives)
6. Financial Planning

Other directory listings may be applicable; please contact the Advertising Department for review and approval of any other possible listing areas.

Some directories have an interactive component, and may allow the Investment Advisor Representative to populate content and for clients to place testimonials, etc. Generally, these directories are not approved for use.

Testimonial Sites

While there are a number of testimonial and review sites, only use of independent, third-party sites are permitted. An independent site is one where the Investment Advisor Representatives have no control of the site's content or content placement, and cannot have the ability to affect which public comment is included, or how the comments are presented on the site. The site must be engineered to make it equally easy for a commenter to post a positive or negative comment. While not directed to advisors, Angie's List is a good example of an independent, third-party social media site. By way of contrast, an advisor's web site, LinkedIn and professional Facebook pages are not independent, third-party social media sites, since the Investment Advisor Representative can control the content.

Content from a third-party independent social media site can be used, but only in full. An Investment Advisor Representative cannot republish a few favorable comments in bold type; the totality of all testimonials must be shown when re-publishing, and in the same manner shown on the original site. The comments can't be re-ordered to emphasize the favorable, or to show the unfavorable in smaller type. Finally, the re-published comments must be regularly updated so as to remain current.

Retail Communications for:

Mutual funds

Variable annuities

Real estate unit investment trusts (REITs)

Business development corporations (BDCs)

Exchange-traded funds (ETFs)

Unit investment trusts (UITs)

Collateralized Mortgage Obligations

Options

Direct Participation Programs

Complex Products

Generally, communications for all of these products must be filed with FINRA, either prior to use or within ten (10) days of first use. For most of these products, there is an abundance of sponsor-created material that has been filed with FINRA, has been found to be compliant by FINRA, and has the "FINRA letter". As a result, KAI policy generally does not permit Investment Advisor Representatives to create their own materials on mutual fund, variable annuities, REITs, BDCs, ETFs and UITs. Investment Advisor Representatives are asked to select FINRA-filed material provided by the issuer or one of the marketing libraries mentioned earlier in this section, and to then submit to the Advertising Department for final review and approval. KAI will perform an additional review to ensure compliance with SEC regulations.

Retail Communications For Complex Products

Complex product retail communications are subject to FINRA filing requirements. Many complex products are relatively new, and as a result, there is a limited amount of compliant marketing materials available. Investment Advisor Representatives cannot create their own pieces for complex products. Pieces submitted to the Advertising Department, for final review and approval, must have been previously submitted to FINRA by a product sponsor or marketing library, and must have the "FINRA" letter. KAI will perform an additional review to ensure compliance with SEC regulations.

Retail Communications For Equities & Bonds

Advertisements discussing equities must be accurate, and fair and balanced. Investment Advisor Representatives are encouraged to augment any discussion of a specific security with reputable third-party research reports, such as S & P IQ. As with other retail communications, retail communications dealing with equities or bonds must be submitted to Advertising for review and approval prior to use. In addition, third party research reports, if being used, must also be submitted to the Advertising Department prior to use.

Advertisements recommending specific securities must display the following disclosures, as applicable:

- a. If KSI makes a market in the issue being recommended, whether KSI may buy and sell the security for its own account, or the account of its officers or employees
- b. Some or all of the recommended securities may be sold or bought from customers on a principal basis by KSI
- c. KSI was manager or co-manager, within three years, of any securities offered by the recommended issuer
- d. Should KSI hold any rights or warrants for the securities, such ownership must be disclosed.
- e. "Past performance is not a guarantee of future performance."
- f. Fixed income securities presentations and correspondence must include the following disclosure:

"All fixed income investments, including Treasury Bonds, are subject to day-to-day market value fluctuations. If sold prior to maturity, they could be worth more, or less, or just the same as your initial investment. Prices and yields referenced are yields to maturity generally available at the time of printing."

"Fair and Balanced Communications"

The term "fair and balanced communications" is broad, but the SEC and FINRA have codified or provided direction in many areas of advertising and/or retail communications. These standards apply to communications that originate with the Investment Advisor Representative, as well as to any communications used by an Investment Advisor Representative, such as article reprints and links to blogs written by others. Shown below are examples that are illustrative on applying the principles of fair and balanced communications:

1. Any recommendation for a specific security or financial instrument must include a statement as to the type of account for which the investment could be considered suitable (e.g. *"This security is suitable for investors who can withstand high potential risks in their account"*).
2. Projections and predictions must be clearly labeled as such, and a reference to the basis of the estimates must be stated as available upon request.
3. If material, the date on which the material is first published, circulated or distributed must be stated; if the information is not current, then this too must be stated.
4. Any reprints of articles or quotations from articles must clearly indicate authorship.
5. Any market letter, research report or similar publication must clearly indicate authorship, and not imply that the letter or report originated with the Investment Advisor Representative or KAI.
6. Forecasts and opinions must be clearly labeled as such. Further, KAI cannot be included in the opinions of the Investment Advisor Representative. If the Investment Advisor Representative chooses to discuss their own opinions, the following must be included on the masthead or as a footnote, as applicable:
 - *"The opinions and recommendations contained in this publication are those of the associates of (name of publishing company) and not Kovack Advisors, Inc."* or
 - *"The opinions and recommendations contained in this publication are those of (name of Investment Advisor Representative) and not Kovack Advisors, Inc."*
7. If using statistical tables, charts, graphics or other illustration the source of information must be clearly disclosed, and must contain the following legend:
 - Charts must be accompanied by this disclosure: "This performance chart has been provided for informational purposes only, and should not be used as the sole basis for making an investment decision. Investment decisions must be made on your own individual needs and risk tolerance. The content you gather from any performance chart is just one of the factors that should be considered before making your investment decision. Past performance is not a guarantee of

future performance, and performance is subject to a number of market factors that may cause the price to fluctuate."

8. Discussions must be balanced, with the full disclosure of the risks and the portrayal of opportunities; equal prominence must be given to both.
9. Illustrations must identify assumptions used (i.e. rate of return, amount Invested, time frame, dividends and capital gains reinvested, etc.)
10. If yields on various investments are given, the assumptions used must be included.
11. Periodic investment plans (Dollar Cost Averaging) should point out that *"such a plan does not assure a profit, and does not protect against loss in declining markets"*.
12. References to regulatory organizations cannot imply that they endorse or approve the material.
13. A prospectus may not be used if it was published thirteen (13) months ago, or if it has been underlined, highlighted, disassembled or altered in any way.
14. Any performance data must be accompanied by the legend *"Past performance is not an indication of future results. The investment return and principal value of an investment may fluctuate, so that upon liquidation, it may be worth more or less than its original cost."*
15. When comparing CDs to other investments, FINRA has challenged advertisements that:
 - Reference only potential rates of return but fail to discuss the differences among the securities being compared, in particular the risks associated with the investments
 - Fail to acknowledge that yields in the alternative investment(s) will fluctuate with market conditions and are not FDIC-insured
 - Fail to explain the basis for yield calculations (i.e., quoted bond rates should be footnoted to note that this is yield-to-maturity)

Supervision

Supervision of all retail communications is overseen by the Senior Vice President/KSI Chief Compliance Officer and the Chief Compliance Officer.